

# Aberforth Geared Income Trust plc

REGISTRATION NUMBER - 07189761

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## Annual Report and Accounts

30 June 2014

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## Strategic Report

The Board is pleased to present the Strategic Report (pages 1 to 16) which incorporates the Chairman's Statement

The investment objective of Aberforth Geared Income Trust plc (AGIT) is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement of 159 7p per Share on the planned winding-up date on 30 June 2017.

## Financial Highlights

### Total Return Performance<sup>1</sup>

Periods to 30 June 2014	Total Assets <sup>1</sup>	Ordinary Share		ZDP Share	
		NAV <sup>1</sup>	Share Price	NAV <sup>1</sup>	Share Price
1 Year	29.2%	41.9%	44.1%	6.75%	6.1%
Annualised					
3 years	18.5%	25.5%	22.8%	6.75%	7.1%
Since Launch <sup>1</sup>	17.1%	23.3%	19.8%	6.75%	9.3%
Cumulative					
3 years	66.3%	97.6%	85.2%	21.7%	23.0%
Since Launch <sup>1</sup>	92.9%	140.0%	112.2%	31.3%	45.0%

### Ordinary Share

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium) <sup>1</sup>	Ordinary Dividends per Share	Special Dividends per Share	Retained Revenue per Share <sup>1</sup>	Ongoing Charges <sup>1</sup>	Gearing <sup>1</sup>
2014	200.0p	173.5p	13.2%	7.17p	1.2p	3.6p	1.40%	42.9%
2013	147.5p	126.8p	14.1%	6.7p	1.0p	2.7p	1.51%	53.0%
2012	103.9p	90.8p	12.7%	6.4p	–	1.7p	1.69%	69.2%
Launch <sup>1</sup>	100.0p	100.0p	–	n/a	n/a	n/a	n/a	66.7%

### Zero Dividend Preference Share (ZDP Share)

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium) <sup>1</sup>	Projected Final Cumulative Cover <sup>1</sup>	Redemption Yield <sup>1</sup>
2014	131.3p	145.0p	(10.4%)	2.5x	3.3%
2013	123.0p	136.6p	(11.1%)	2.0x	4.0%
2012	115.2p	121.1p	(5.1%)	1.6x	5.7%
Launch <sup>1</sup>	100.0p	100.0p	–	1.4x	6.75%

Source: Aberforth Partners LLP

<sup>1</sup> Defined in the Glossary on page 56

The valuation statistics above consisting of Redemption Yields and Final Cumulative Cover are projected, illustrative and do not represent profit forecasts. There is no guarantee these returns will be achieved.

# Chairman's Statement

## Performance

Now that AGIT is into the second half of its planned life, it is worth reviewing the investment backdrop for small UK quoted companies since launch. From the Company's launch on 30 April 2010 to 30 June 2014, the total return of the NSCI (XIC), which defines AGIT's investment universe, has been 84.4%. Over the same period, the total return of the FTSE All-Share Index, which is representative of large companies, has been 43.7%. Market conditions within AGIT's investment universe have therefore been very conducive to AGIT's capital structure, which requires good absolute returns to deliver the planned entitlement of the ZDP Shareholders and, beyond that, capital gains and a high level of income for the Ordinary Shareholders. AGIT has been able to take advantage of these conditions. Its total asset total return (essentially its ungeared return at the portfolio level) has been 92.9%.

Over the last financial year, three characteristics of the portfolio have been of particular benefit to AGIT: the above average yields of the holdings in an investment world still struggling to find yield, the continued portfolio bias in favour of the smaller companies within the NSCI (XIC), which have performed especially strongly, and the underlying value investment philosophy deployed by the Managers. These attributes, which are addressed in greater detail in the Managers' report, helped AGIT to generate a total return on total assets of 29.2% over the 12 months to 30 June 2014. Over the same period, the returns from the FTSE All-Share and the NSCI (XIC) were 13.1% and 20.3% respectively.

Performance over the past year has helped the final cumulative cover of the ZDP Shares rise to 2.5x from 1.4x at launch. The capital entitlement of the ZDP Shares, which rises at 6.75% per annum from 100 Op at launch to 159.7p on 30 June 2017, acts as gearing on the Ordinary Shares. If capital performance exceeds the hurdle imposed by that rising capital entitlement, as was the case over the last year, the Ordinary Shares should enjoy capital appreciation on top of their rights to all income generated by the portfolio. Accordingly, the total return of the Ordinary Shares over the 12 months to 30 June 2014 was 41.9%.

## Earnings and Dividends

The dividend performance of constituents of the NSCI (XIC) has remained positive and benefited AGIT's revenue account. Investment income in the 12 months to 30 June 2014 rose by £0.9m to £11.2m, while revenue expenses increased by £0.2m to £1.1m. Earnings per Share were 9.28p, an increase of 6.9% over the preceding 12 months. Taking into account this revenue performance, the Board has declared a second interim dividend of 4.85p per Ordinary Share for the year ended 30 June 2014. Combined with the first interim dividend of 2.32p paid in February 2014, this gives a total underlying dividend in respect of the year to 30 June 2014 of 7.17p, an increase of 7.0% over the 6.70p dividend in respect of the preceding reporting period.

Additionally, and in recognition of five special dividends received from investee companies during the financial year, the Board declares its intention to pay a special dividend of 1.20p per Ordinary Share. The frequency of special dividends paid by constituents of the NSCI (XIC) has increased in recent years. AGIT's revenue account has benefited from this trend. However, special dividends are by their nature unpredictable – it would be imprudent to assume that further special dividends will be paid by AGIT itself.

The cumulative revenue reserve, after accounting for these dividends, will amount to £3.9m or 3.60p per Ordinary Share. This reserve will be distributed to Ordinary Shareholders over the remaining life of the Company and may be used to support future dividends were the climate for dividends from portfolio companies to deteriorate. The second interim dividend of 4.85p and the special dividend of 1.20p will be paid on 28 August 2014 to Ordinary Shareholders on the register on 8 August 2014. The ex dividend date is 6 August 2014.

Your Company offers the opportunity to use your cash dividends to buy more Ordinary Shares in the Company through a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Aberforth Partners LLP or on its website, [www.aberforth.co.uk](http://www.aberforth.co.uk).

## Annual General Meeting

The AGM will be held on 16 October 2014 at 2.00pm at 14 Melville Street, Edinburgh EH3 7NS. All Ordinary Shareholders are welcome to attend and to meet the Directors and Managers.

## Chairman's Statement

### Alternative Investment Fund Managers Directive (AIFMD)

I have previously explained your Board's intention to appoint Aberforth Partners LLP as AGIT's Alternative Investment Fund Manager (AIFM). The Managers received the necessary FCA authorisation and commenced this role on 1 July 2014. Additionally, from the same date, National Westminster Bank plc assumed the role of Depository, as required by the Directive, delegating the provision of custody services to The Northern Trust Company. Amendments were made to the Investment Management Agreement (IMA) between AGIT and the Managers to incorporate the new obligations imposed under the Directive. The key commercial terms of the IMA, including those on fees and termination, are unchanged.

### Scottish Independence Referendum

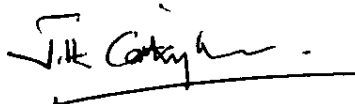
The referendum on Scottish independence takes place on 18 September 2014. The Company clearly has several links with Scotland, not least that it is where a number of Shareholders as well as the Managers are based. Until the result of the referendum is known and any future settlement clarified, uncertainty will persist for businesses with interests both north and south of the border. Your Board continues to monitor the situation and does not plan to take any pre-emptive action which would be based upon conjecture as to the outcome.

### New Reporting Requirements

As a result of recent legislative changes to reporting requirements, several alterations have been made to the Annual Report. These include the introduction of a Strategic Report (pages 1 to 16) and a Directors' Remuneration Policy (page 30), as well as an amended Directors' Remuneration Report (pages 31 to 32). The Strategic Report replaces the Business Review and is primarily designed to provide Shareholders with a holistic and meaningful picture of the Company's business model, strategy, development, performance, position and future prospects. The Directors' Remuneration Policy is subject to Shareholder consideration at the forthcoming AGM and, if approved, will be observed by AGIT for the following three years before once again being submitted to Shareholders for approval.

### Outlook

Returning to the opening paragraph's brief review of performance since launch, the 84.4% return from small companies is, on an annualised basis, the same as the average annual nominal total return from the NSCI (XIC) over the very long term since 1955. Such returns are heavily influenced by valuations at the start point, which at launch in 2010 were still affected by the global financial crisis and recession. Subsequent good performance, which has fed through to higher valuations for small companies, suggests that a lower potential return will be available from the asset class taken as a whole and that it will be more challenging to deliver future returns on the scale enjoyed by investors in small companies over the last four years. However, this note of caution may be tempered by the specific characteristics of AGIT's portfolio. Your Board notes in particular the Managers' value investment style, which results in a portfolio on a relatively wide valuation discount, with the potential for a significant re-rating to distinguish its performance from the asset class as a whole. Moreover, strong balance sheets and dividend cover offer encouragement that further dividend growth from the portfolio should be achievable. Notwithstanding continuing market uncertainties, your Board believes that AGIT continues to be well placed to meet the objectives of both classes of Shareholder over the next three years although the challenge to match or exceed past performance will be significant.



Jonathan Cartwright  
Chairman  
28 July 2014

jonathan.cartwright@aberforth.co.uk

# Investment Objective, Policy and Strategy

## Investment Objective

The investment objective is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement of 159.7p on the planned winding-up date on 30 June 2017.

## Investment Policy

The Company aims to achieve its objective by investing in a diversified portfolio (typically between 50 and 100 individual investments) of small UK quoted companies. Small UK quoted companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the London Stock Exchange's Main Market for listed securities by market capitalisation or companies in the NSCI (XIC). As at 1 January 2014 (the date of the last annual NSCI (XIC) index rebalancing), the NSCI (XIC) index consisted of 363 companies, with an aggregate market capitalisation of £163 billion. Its upper market capitalisation limit was £1.503 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within the definition of a small UK quoted company its securities will become candidates for sale.

The Company may, at time of purchase, invest up to 15% of its assets in any one security although, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis. The Company will not invest in any securities issued by other closed ended UK listed investment companies with the exception of real estate investment trusts (REITs) that are eligible to be included in the NSCI (XIC). As at 30 June 2014 no security had a value greater than 5% of total portfolio value.

Investment will only be made in companies with securities traded on the London Stock Exchange or, in limited circumstances, in AIM listed investments. AIM listed investments will only be held in the portfolio if they have given a formal commitment to move to the Main Market, or in the situation where an existing investee company has moved its listing from the Main Market to AIM.

The Investment Managers will aim to keep the Company near to fully invested in equities or securities convertible to equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company does not intend to utilise any bank borrowings other than short-term overdraft or working capital facilities. The Directors expect that, in normal market conditions, bank borrowings will not exceed 2.5% of Total Assets. The Articles limit the level of such bank borrowings to a maximum of 5% of Total Assets at the time of drawdown. The Company has a gearing policy to maintain total gearing, including the ZDP Shares, below the total of (i) the accrued capital entitlement of the ZDP Shares from time to time, plus (ii) 5% of its Total Assets at the time of drawdown. The Directors have delegated responsibility to the investment Manager for the operation of the Company's overdraft and working capital facilities within the above parameters. Subject to the prior approval of the Board of Directors the Company may use derivative instruments, such as financial futures and options, for the purposes of efficient portfolio management. It is not anticipated that regular use of derivatives will be made.

The Board believes that small UK quoted companies have the potential to generate capital and dividend growth, and to provide a positive total return over the long term. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

## Investment Strategy

The Managers adhere to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the average valuation metrics of the Company's holdings will usually be more attractive than those of the NSCI (XIC), the investment universe. While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Managers select companies for the portfolio on the basis of fundamental or "bottom-up" analysis. The disposition of the portfolio by sector is a result of "bottom-up" stock selection, though a "top-down" risk evaluation is undertaken regularly. Analysis involves scrutiny of businesses' financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold when their valuations reach targets determined by the Managers.

In order to improve the odds of achieving the investment objective, the Managers believe that the portfolio must be adequately differentiated from the NSCI (XIC), the investment universe. Therefore, within the diversification parameters described in Investment Policy, the Managers regularly review the level of differentiation, with the aim of achieving a high active weight for each holding within the portfolio.

# Principal Risks

## Principal Risks and Risk Management

The Directors have established an on-going process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the year and continues in place up to the date of this report. Investment in small companies is generally perceived to carry more risk than investment in large companies. By investing in a diversified portfolio the risk of investments in small companies should be lower than investing directly in an individual company.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised as follows:

### (i) Investment policy/performance

The principal risks facing the Company are market related and include market price, credit, liquidity and interest rate risk. An explanation of these risks and how they are managed is set out in Note 21 to the financial statements on pages 51 to 53. The Board has outsourced portfolio management to experienced Managers and receives regular and detailed reports on investment performance. Peer group performance is monitored by the Board.

### (ii) Structural conflicts of interest

The different rights and expectations of the holders of Ordinary Shares and the holders of ZDP Shares may give rise to conflicts of interest between them. While the Company's investment objective and policy seeks to strike a balance between the interests of both classes of Shareholder, there can be no guarantee that such a balance will be achieved and maintained during the planned life of the Company.

### (iii) Significant fall in investment income

A significant fall in investment income could lead to the inability to provide a high level of income and income growth. The Board has outsourced portfolio management to experienced Managers and receives regular and detailed reports on income performance together with income forecasts.

### (iv) Managing regulatory and statutory changes

Breach of regulatory rules could lead to suspension of the Company's share price listings, financial penalties or a qualified audit report. Breach of section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to capital gains tax. The Board reviews quarterly compliance reports from the Secretaries to monitor compliance with regulations.

### (v) Loss of key investment personnel

The Board believes that a risk exists in the loss of key investment personnel at Aberforth Partners. Board members are in regular contact with the partners and staff of Aberforth Partners and monitor personnel changes.

### (vi) Inability to provide ZDP Shareholders with 159.7p on wind-up

If the capital value of the Company's portfolio falls by more than 26.8% per annum compounded over the remainder of the planned life of the Company, the ZDP Shareholders will receive less than 159.7p per ZDP Share on the planned winding up date. The Board reviews regular reports on the hurdle rate required to return 159.7p per ZDP Share on the planned winding-up date.

### (vii) Significant failure in a key service provider

Failure of the key operational systems of the Investment Managers (i.e. accounting system, IT infrastructure) or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring, or potentially lead to misappropriation of assets. The Board reviews regular reports on the internal controls of the Managers and other key third party service providers.

## Key Performance Indicators

The Board assesses the Company's performance in meeting its objectives against the following key performance indicators

- Total Assets total return;
- Ordinary Share Net Asset Value total return,
- Ordinary Share Net Asset Value,
- Ordinary Share Price discount,
- Dividend per Share,
- ZDP Share Net Asset Value,
- ZDP Share Projected Final Cumulative Cover, and
- Hurdle Rates

A record of these measures is provided within Financial Highlights (page 1) and Other Financial Information (pages 6 to 7) Further analysis is provided within the Chairman's Statement (pages 2 to 3) and the Managers' Report (pages 8 to 11) The Managers' Report has been prepared by Aberforth Partners LLP and the Board endorses the analysis provided in respect of the key performance indicators

## Other Financial Information

	30 June 2014	30 June 2013	% Change
	£'000	£'000	
<b>Shareholders' Funds:</b>			
Ordinary Shares	£219,044	£161,507	+35.6%
ZDP Shares	£95,850	£89,794	+6.75%
<b>Total</b>	<b>£314,894</b>	<b>£251,301</b>	<b>+25.3%</b>
<b>Market Capitalisation:</b>			
Ordinary Shares	£189,982	£138,791	+36.9%
ZDP Shares	£105,850	£99,740	+6.1%
<b>Total</b>	<b>£295,832</b>	<b>£238,831</b>	<b>+23.9%</b>
<b>Ordinary Share:</b>			
Net Asset Value	200.0p	147.5p	+35.6%
Share Price	173.5p	126.8p	+36.9%
Discount/(Premium)	13.2%	14.1%	n/a
<b>ZDP Share:</b>			
Net Asset Value	131.3p	123.0p	+6.75%
Share Price	145.0p	136.6p	+6.1%
Discount/(Premium)	(10.4%)	(11.1%)	n/a
<b>Portfolio Turnover</b>	<b>24.1%</b>	<b>32.5%</b>	<b>n/a</b>



## Hurdle Rates<sup>1</sup>

At 30 June	Ordinary Shares Hurdle Rates to return <sup>2</sup>			ZDP Shares Hurdle rates to return <sup>2</sup>	Portfolio Turnover <sup>3</sup>
	100p	Share Price	Zero Value	159 7p	
<b>2014</b>	<b>(8.8%)</b>	<b>0.9%</b>	<b>(26.8%)</b>	<b>(26.8%)</b>	<b>24.1%</b>
2013	(1.1%)	1.9%	(16.2%)	(16.2%)	32.5%
2012	4.0%	3.1%	(8.9%)	(8.9%)	23.9%
2011	2.5%	3.3%	(8.2%)	(8.2%)	26.7%
Launch <sup>1</sup>	3.9%	n/a	(5.3%)	(5.3%)	n/a

## Redemption Yields<sup>1</sup> as at 30 June 2014 (Ordinary Shares)

Capital Growth (per annum)	Ordinary Share Redemption Yields <sup>1</sup> Dividend Growth (per annum)				Terminal NAV <sup>1</sup>
	0.0%	+2.5%	+5.0%	+7.5%	
0.0%	3.3%	3.7%	4.0%	4.4%	165.8p
+2.5%	7.2%	7.5%	7.9%	8.3%	186.7p
+5.0%	11.0%	11.3%	11.6%	12.0%	208.7p
+7.5%	14.7%	15.0%	15.3%	15.7%	231.7p

<sup>1</sup> Defined in the Glossary on page 56

## Other Business Information

### Board Diversity

The Company's policy on diversity is set out on page 24 within the Corporate Governance Report

### Social and Environmental Matters

The Company has no employees, property or activities outwith its investment management activities and as a consequence an environmental policy has limited application. The approach by the Company and the Managers to Social, Environmental and Ethical Issues is set out on page 23 within the Corporate Governance Report

# Managers' Report

## Introduction

Most equity markets around the globe performed well in the 12 months to 30 June 2014. The FTSE All-Share, representative of large UK companies, recorded a total return of 13.1%. Of more relevance to AGIT, its opportunity base, the NSCI (XIC), achieved a total return of 20.3%. Such a background of strong positive returns from small companies was ideal for AGIT, whose total return at the total assets level was 29.2%. However, though the 12 months to 30 June 2014 represented a good outcome, the fortunes of small companies in the first and second halves of the period were rather different. In the first half, the NSCI (XIC) generated a total return of 21.0%, which was the fourth consecutive six month period of double digit returns. In contrast, the second half of AGIT's financial year saw a total return from the asset class of -0.6%. AGIT nevertheless managed a positive total asset total return of 1.4% in this period, but clearly the progress of small companies has been challenged so far in 2014.

In the Interim Report, your Managers cautioned that "the absolute returns that AGIT generates in 2014 and beyond will be heavily influenced by global financial and macro economic factors that can seem very distant from the parochiality of small UK quoted companies". So far in 2014, there have been several such challenges – tensions in the Ukraine, volatility in emerging markets, renewed hostilities in Iraq, even more concern about the Chinese shadow-banking system, ambiguous US data following a harsh winter, and some confusing commentary on monetary tightening by the new chairman of the Fed. Against this background and in view of 2013's strong returns, 2014's modest decline for small company equities, which tend to be more volatile and less defensive than their larger peers, might be considered unsurprising.

A further challenge, which plays to the theme of reversal, has come from a rally in government bond prices. Ten year gilt yields fell from 3.0% at 31 December 2013 to 2.7% at 30 June 2014. This has come despite a continued improvement in the domestic UK economy, which has recently given rise to speculation about an interest rate increase in 2014. The drop in yields has also been evident in the US and has wrong-footed many market observers, who had been forecasting a continuation of the trends of 2013, when yields rose sharply from 1.8% to 3.0%.

That rise played to the theme of "great rotation", which was addressed in the previous Interim Report. The "great rotation" describes a strengthening of economic growth and normalisation of monetary conditions that create conditions favourable to equity investment. The relapse in government bond yields is therefore rather inconvenient for this scenario, potentially indicating deteriorating prospects for economic growth. However, this interpretation is complicated by central banks' bond purchases. Although the US is tapering its quantitative easing programme, additional extraordinary stimulus may be forthcoming from the Eurozone. Mario Draghi has indicated that, on top of recently announced measures, quantitative easing will be deployed if the threat of deflation remains.

Perhaps the lesson to learn from the past year or so, with yields testing the 3.0% level, is that economies are still not sufficiently resilient to cope with this degree of effective monetary tightening. Thus, while the logic of the "great rotation" is sound, the conditions necessary for it to play out in full are not yet in place. Financial markets will continue to test the strength of the real economy, but recovery will be drawn out and monetary conditions will remain looser for longer, even in the UK.

## Investment Performance

AGIT's total return at the total assets level in the twelve months to 30 June 2014 was 29.2%. As usual, the principal influence on the outcome in any period is the performance of the opportunity base from which the portfolio's holdings are selected and so the NSCI (XIC)'s total return of 20.3% is clearly important. However, other factors that distinguish AGIT's portfolio from the opportunity base were also at work. The following paragraphs address the most significant of these.

### Size

The "smaller small" companies within the NSCI (XIC) performed considerably better than the "larger small" companies. An indication of this is the relative performance of the FTSE 250 and the FTSE SmallCap, whose total returns over the twelve months to 30 June 2014 were 17.8% and 25.3% respectively. This was beneficial to the portfolio's relative performance since it has a relatively low exposure – 55% against 72% for the index – to the "larger small" companies. This positioning is motivated by the more attractive valuations still available among companies with market capitalisations less than £500m.

## Managers' Report

Despite the superior returns from “smaller smalls” over the 18 months to 30 June 2014, the FTSE 250 remains by some way the most buoyant component of the UK stockmarket since the turn of the millennium, having generated a total return of 301%, against 98% for the FTSE SmallCap and 79% for the FTSE All-Share. These performance figures, which are influenced by the peculiarities of the TMT bubble and the global financial crisis, are inconsistent with academic theory, which suggests that investors in smaller companies should be compensated for greater illiquidity by superior returns.

### *Style*

Investment style was also helpful to returns, with the value component of the NSCI (XIC) out-pacing the growth component over the twelve months to 30 June 2014. To an extent, this reflects specific problems that confronted several growth companies over the period. Another influence on style has been movements in gilt yields. As noted in the opening section of this report, ten year gilt yields rose from 1.8% to 3.0% in 2013. This was helpful to the value style and, by extension, to AGIT's performance in its first half. However, in its second half, yields subsided to 2.7%, which might be considered to be a hindrance to the performance of the value style. There are two reasons for this. First, falling long term gilt yields should, other things being equal, lower the discount rates applicable to profit streams over the mid to long term, since a greater proportion of growth companies' profits come over the mid to long term, the valuations of growth companies should benefit disproportionately. Second, flattening yield curves can reflect tighter monetary conditions, with short term rates rising to quell inflationary pressures, a subsequent slowdown in economic activity would usually affect value companies disproportionately since they tend to be more cyclical, lacking the secular growth opportunities of growth companies.

### *Corporate activity*

The quietest calendar year for small cap M&A in Aberforth's history was 2013, when only five acquisitions of NSCI (XIC) constituents were completed. However, as confidence has continued to improve around board room tables, there has been a pick-up in activity in 2014. As at 30 June, bids for 13 companies had either completed or were outstanding. The acquirers tended to be overseas companies. The average premium to the share price before announcement was 30%. Two of these were holdings in the portfolio. However, the real excitement for the investment bankers has come from the continued strength of the IPO market, which started in earnest in the middle of 2013. In the first half of 2014, 22 companies potentially eligible for inclusion in the NSCI (XIC) had floated on the main market of the London Stock Exchange. The combined market capitalisation of these companies was some £15bn, roughly double the value of the 13 companies subject to M&A. A continuation of the recent rate of IPOs would render 2014 the busiest year since 2000.

Your Managers tend to be wary of IPOs since the vendors, typically private equity houses, should know a lot more about the businesses than the acquirers. Moreover, IPO markets in full flood are particularly dangerous, as prices tend to be set by the vendors. Over-ambitious valuations can result in disappointing share price performance of the companies once on the stockmarket, an increasingly frequent phenomenon as the year has progressed. Within the portfolio at 30 June 2014 were two recent IPOs. One of these positions was taken after the company had floated and its share price had dropped sharply. Other opportunities among the recent IPOs may be forthcoming over the coming year or so if the IPO prices do indeed turn out to have been over-ambitious.

The likely net effect of M&A and IPOs is a year of re-equitisation, as the stock of small company equity capital is replenished. This follows four years of de-equitisation. While the enthusiastic reception for IPOs might be viewed as part of the “great rotation”, it could be argued that the supply-demand balance is being altered to the disadvantage of small company valuations.

### *Results*

The 36.9% total return enjoyed by the NSCI (XIC) in the twelve months to 31 December 2013 came despite a lack of profits growth. There are 358 companies within the NSCI (XIC), of which Aberforth tracks closely 282. This “tracked universe” represents 98% by value of the total index. Of the 282, 138 have December year ends and reported their 2013 results in the first quarter of 2014. The aggregate sales of these companies rose by 1% in 2013, while their operating profits dropped by 3%. There is a distortion from 21 resources companies, with these stripped out of the analysis, the sales of the remainder grew by 2% and the operating profits by 4%. Nevertheless, these are hardly rates of growth that justify last year's surge in share prices. The market was

## Managers' Report

therefore prepared to look further ahead. The outlook for 2014 does seem brighter, as the domestic economy, which accounts for roughly 50% of the aggregate sales of NSCI (XIC) constituents, continues to recover. However, as factors such as sterling's strength gnaw away at the value of sales generated outside the UK, the small cap universe continues to witness net downgrades to profit estimates. It is by no means certain that the market would take a repeat of 2013 with such insouciance.

However, more positive evidence is emerging for the medium term. The 138 companies noted above are investing. The ratio of aggregate capital expenditure to depreciation was 1.8x in 2013. A number above 1.0x suggests that companies are doing more than just replacing existing productive capacity. Even when the resources companies are again eliminated, the ratio for the remainder is a healthy 1.4x. The majority of companies in this cross section of small UK quoted companies, contrary to the rhetoric of some commentators, do appear to be investing for future growth.

### *Income*

Despite the disappointing progress of profits in the recent past, the income performance of small companies has remained strong, with mid to high single digit underlying dividend growth across the asset class. AGIT has shared in this. Of its portfolio of 72 companies, 43 increased their most recent dividends, 15 made no change, 5 currently pay no dividend, 4 cut, 3 are IPOs that have not yet paid a dividend and 2 pay dividends but have no meaningful comparison. Looking ahead, another year of similar rates of dividend growth across the NSCI (XIC) is plausible, with scope for a meaningful contribution from companies returning to the dividend register. Nil payers presently account for 15% of the total value of the NSCI (XIC). Since they are on the whole profitable but are currently nil yielding, they boost the NSCI (XIC)'s average historic dividend cover of 2.8x. AGIT has a much lower exposure to nil yielders, which accounts for its lower cover of 2.3x. Two of AGIT's five nil payers should be capable of paying dividends within the next two years. The dividend cover of the index will decline as nil payers return to the register.

AGIT's lifetime has coincided with the advent of quantitative easing. A significant portion of the liquidity created by central banks to stimulate economic activity has been deployed in carry trades, as investors have sought to exploit yield differentials by buying higher yielding assets. Bonds benefited first, but it is probable that there has been a trickle-down effect even into the universe of small company equities. AGIT's portfolio of companies, which have above average yields, has been a beneficiary of this phenomenon, which has been dubbed "yieldfall". The risk in such investment themes is that the market goes too far and, with its focus solely on yield, takes other valuation metrics to unjustifiable levels. Your Managers believe there have been instances of this and have made reductions to the holdings concerned over the past year.

### *Strong balance sheets*

Balance sheets across the small company universe remain among the strongest seen in Aberforth's history. At 30 June 2014, 34% and 33% of the portfolio and the tracked universe respectively were represented by companies with net cash on their balance sheets. In the case of the portfolio, this robustness was a feature since launch. It persists despite encouraging evidence that company boards are willing to put some of their cash resource to use, either through higher investment or through returns of cash to shareholders in the form of special dividends or buy-backs.

### *Active share*

Active share, or active money, is a measure of how different a portfolio is from its universe of investment opportunities and thus of fund managers' conviction in the stocks they choose to own. It may be calculated by summing the active weights (i.e. the portfolio weight less the index weight) for each stock in the portfolio. A higher active share ratio implies a lower probability that the portfolio will perform like the investment universe. Active share may be flattered by creating a mismatch through owning stocks that are not constituents of the investment universe. However, since your Managers sell stocks that grow too large to be included in the NSCI (XIC), AGIT's level of mismatch with the index is low. Indeed, the present mismatch is accounted for by companies that will be eligible for membership of the NSCI (XIC) on its next rebalancing. Your Managers target an active share ratio of at least 70%, though will tolerate a temporarily depressed number. At 30 June 2014, the ratio for AGIT's portfolio stood at 75%. Your Managers believe that this demonstrates conviction in AGIT's holdings. However, while performance should differ from that of the investment universe, there is no guarantee that it will do so in a positive fashion!

# Managers' Report

## Valuations & outlook

Characteristics	30 June 2014		30 June 2013	
	AGIT	NSCI (XIC)	AGIT	NSCI (XIC)
Number of companies	72	358	77	383
Weighted average market capitalisation	£709m	£812m	£606m	£882m
Price earnings ratio (historic)	13.3x	15.2x	11.6x	14.3x
Dividend yield (historic)	3.2%	2.4%	3.9%	2.5%
Dividend cover	2.3x	2.8x	2.2x	2.8x

The very strong performance from equities in 2013, coupled with lacklustre profit growth, resulted in a substantial upwards revaluation. This re-rating was by no means confined to small UK quoted companies, but is evident in the movement in the NSCI (XIC)'s historic PE from 12.8x at the start of 2013 to 15.2x at 30 June 2014. This most recent multiple represents a 13% premium to the average historic PE of the NSCI (XIC) over Aberforth's 24 year history of 13.4x. It also represents a 3% premium to the 14.8x historic PE of large companies at the end of June, which compares with an average discount of small to large over Aberforth's history of 8%.

There are potentially extenuating circumstances. Other things being equal, the very strong balance sheets enjoyed by small companies would merit a higher PE. And, in relation to large companies, radically different sector exposures can be more important than a direct size effect in explaining relative valuations. But it is difficult to argue that small companies as a whole are now cheap, at least on the basis of historic PE ratios. Of course, the market looks ahead and discounts what is to come and thus today's valuations may be justified by the imminence of strong profit growth. On this front, immediate prospects are clouded by sterling's strength and by a still uncertain recovery path in Europe. Over the medium term, stronger than average profit growth should be achievable if and when Europe recovers properly, but over the long term profit progression in line with nominal GDP is probably not too far from the mark. On balance, therefore, from a starting dividend yield of 2.4%, modest single digit total returns for small companies look likely over coming years.

These comments pertain to the asset class as a whole, but it is still possible to differentiate within the confines of the NSCI (XIC). The valuation characteristics of AGIT's portfolio differ from those of the asset class. The historic PE of 13.3x is 13% below that of the NSCI (XIC). The table below shows the valuation on a forward looking basis to December 2015, using the ratio of enterprise value to earning before interest, tax and amortisation (EV/EBITA), a metric that is unaffected by companies' balance sheet financing structures.

### 2015 EV/EBITA ratio

38 growth companies	244 other companies	Tracked Universe	Portfolio
13.2x	9.4x	10.0x	8.7x

This analysis demonstrates the differentiation possible through a value investment discipline, with the growth companies in the index on a 52% premium to the constituents of the portfolio. Part of this valuation advantage reflects the portfolio's exposure to the cheaper "smaller small" companies that the market at large still seems reluctant to embrace.

It is necessary to be realistic. macro economics, geopolitics and the vagaries of the yield curve will buffet the stockmarket over the short term, determining its appetite for smaller companies and for the value investment style. However, your Managers are encouraged by the still wide disparity in valuations evident within the NSCI (XIC). The attractively valued businesses within the portfolio give AGIT's investors exposure to the value investment style, which, in the recent past and over the long term, has delivered demonstrably superior returns.

Aberforth Partners LLP  
Managers  
28 July 2014

## Thirty Largest Investments

No	Company	Value as at		Business Activity
		30 June 2014 £'000	% of Total	
1	JD Sports Fashion	14,063	4.5	Retailing - sports goods & clothing
2	RPC Group	13,963	4.5	Plastic packaging
3	Vesuvius	12,271	3.9	Metal flow engineering
4	e2v technologies	10,809	3.5	Electronic components & subsystems
5	Galliford Try	10,616	3.4	Housebuilding & construction
6	QinetiQ Group	8,538	2.7	R&D and consulting services
7	Hilton Food Group	8,392	2.7	Food manufacturer
8	Morgan Advanced Materials	8,006	2.6	Manufacture of carbon & ceramic materials
9	Go-Ahead Group	7,874	2.5	Bus & rail operator
10	WH Smith	7,500	2.4	Newsagents
<b>Top Ten Investments</b>		<b>102,032</b>	<b>32.7</b>	
11	Shanks Group	7,332	2.3	Waste services
12	Beazley	6,985	2.2	Lloyd's insurer
13	Brewin Dolphin Holdings	6,875	2.2	Private client fund manager
14	Micro Focus	6,276	2.0	Software - development & testing
15	Spirit Pub Company	6,175	2.0	Managed pub operator
16	Connect Group	6,148	2.0	Newspaper distribution
17	Tullett Prebon	5,023	1.6	Interdealer broker
18	Hansteen Holdings	5,022	1.6	Property - industrial
19	National Express Group	4,949	1.6	Bus & rail operator
20	TT Electronics	4,887	1.6	Sensors & other electronic components
<b>Top Twenty Investments</b>		<b>161,704</b>	<b>51.8</b>	
21	Chlme Communications	4,883	1.6	Public relations, advertising & marketing
22	Hogg Robinson Group	4,840	1.5	Travel & expense management
23	FirstGroup	4,779	1.5	Bus & rail operator
24	Novae Group	4,734	1.5	Lloyd's insurer
25	KCOM Group	4,697	1.5	Telecoms & related services
26	Computacenter	4,593	1.5	IT services
27	Carillion	4,585	1.5	Construction & support services
28	Vitec Group	4,533	1.4	Camera accessories & microwave components
29	Castings	4,528	1.4	Engineering - automotive castings
30	RPS Group	4,476	1.4	Energy & environmental consulting
<b>Top Thirty Investments</b>		<b>208,352</b>	<b>66.6</b>	
Other Investments (42)		104,607	33.4	
<b>Total Investments</b>		<b>312,959</b>	<b>100.0</b>	
Net Liabilities		(93,915)		
<b>Total Net Assets</b>		<b>219,044</b>		

## Investment Portfolio

Sector/Security	Business Activity	Value as at 30 June 2014 £'000	% of Total Investments
<b>Oil &amp; Gas Producers</b>		<b>3,671</b>	<b>1.2</b>
JKX Oil & Gas	Oil & gas exploration & production	222	0.1
Soco International	Oil & gas exploration & production	3,449	1.1
<b>Chemicals</b>		<b>3,131</b>	<b>1.0</b>
Synthomer	Speciality chemicals	3,131	1.0
<b>Mining</b>		<b>2,284</b>	<b>0.7</b>
Anglo Pacific Group	Natural resources royalties	2,284	0.7
<b>Construction &amp; Materials</b>		<b>14,066</b>	<b>4.5</b>
Galliford Try	Housebuilding & construction	10,616	3.4
Low & Bonar	Manufacture of industrial textiles	3,450	1.1
<b>Aerospace &amp; Defence</b>		<b>10,459</b>	<b>3.3</b>
Chemring Group	Defence products, including countermeasures	1,921	0.6
QinetiQ Group	R&D and consulting services	8,538	2.7
<b>General Industrials</b>		<b>26,234</b>	<b>8.4</b>
RPC Group	Plastic packaging	13,963	4.5
Vesuvius	Metal flow engineering	12,271	3.9
<b>Electronic &amp; Electrical Equipment</b>		<b>23,702</b>	<b>7.7</b>
e2v technologies	Electronic components & subsystems	10,809	3.5
Morgan Advanced Materials	Manufacture of carbon & ceramic materials	8,006	2.6
TT Electronics	Sensors & other electronic components	4,887	1.6
<b>Industrial Engineering</b>		<b>14,076</b>	<b>4.4</b>
Bodycote	Engineering - heat treatment	1,812	0.6
Castings	Engineering - automotive castings	4,528	1.4
Hill & Smith Holdings	Engineering - infrastructure products	3,203	1.0
Vitec Group	Camera accessories & microwave components	4,533	1.4
<b>Support Services</b>		<b>52,568</b>	<b>16.6</b>
Acal	Electronic component distribution	2,733	0.9
Acal Nil Paid Rights	Electronic component distribution	567	0.2
Carillion	Construction & support services	4,585	1.5
Connect Group	Newspaper distribution	6,148	2.0
De La Rue	Bank note printer	2,558	0.8
Electrocomponents	Electronic component distribution	4,192	1.3
Hogg Robinson Group	Travel & expense management	4,840	1.5
Hyder Consulting	Engineering & design consultancy	2,619	0.8
Interserve	Construction & support services	2,451	0.8
Management Consulting Group	Management consultancy	1,250	0.4
Northgate	Van rental	4,192	1.3
office2office	Distribution of office products	453	0.1
RPS Group	Energy & environmental consulting	4,476	1.4
Shanks Group	Waste services	7,332	2.3
SThree	Recruitment	4,172	1.3
<b>Beverages</b>		<b>1,664</b>	<b>0.5</b>
Stock Spirits Group	Branded spirits producer	1,664	0.5

# Investment Portfolio

		Value as at 30 June 2014	% of Total
<b>Food Producers</b>		<b>8,845</b>	<b>2.9</b>
Hilton Food Group	Food manufacturer	8,392	2.7
R E A Holdings	Palm oil producer	453	0.2
<b>Household Goods &amp; Home Construction</b>		<b>3,360</b>	<b>1.1</b>
Bovis Homes Group	Housebuilding	1,978	0.6
McBride	Private label household products	1,382	0.5
<b>Letsure Goods</b>		<b>1,866</b>	<b>0.6</b>
Games Workshop Group	Tabletop fantasy wargames	1,866	0.6
<b>Food &amp; Drug Retailers</b>		<b>1,476</b>	<b>0.5</b>
McColl's Retail Group	Retailing - convenience stores	1,476	0.5
<b>General Retailers</b>		<b>28,326</b>	<b>9.1</b>
Card Factory	Retailer - greetings cards	3,053	1.0
Halfords Group	Retailing & car servicing	3,710	1.2
JD Sports Fashion	Retailing - sports goods & clothing	14,063	4.5
WH Smith	Newsagents	7,500	2.4
<b>Media</b>		<b>18,386</b>	<b>5.9</b>
Centaur Media	B2B publishing	2,581	0.8
Chime Communications	Public relations, advertising & marketing	4,883	1.6
Future	Special interest consumer publisher	938	0.3
Huntsworth	Public relations	4,072	1.3
Mecom Group	European newspaper publisher	3,447	1.1
Trinity Mirror	UK newspaper publisher	2,465	0.8
<b>Travel &amp; Letsure</b>		<b>25,621</b>	<b>8.2</b>
Air Partner	Aircraft charter	1,844	0.6
FirstGroup	Bus & rail operator	4,779	1.5
Go-Ahead Group	Bus & rail operator	7,874	2.5
National Express Group	Bus & rail operator	4,949	1.6
Spirit Pub Company	Managed pub operator	6,175	2.0
<b>Fixed Line Telecommunications</b>		<b>4,697</b>	<b>1.5</b>
KCOM Group	Telecoms & related services	4,697	1.5
<b>Nonlife Insurance</b>		<b>11,719</b>	<b>3.7</b>
Beazley	Lloyd's insurer	6,985	2.2
Novae Group	Lloyd's insurer	4,734	1.5
<b>Life Insurance</b>		<b>2,713</b>	<b>0.9</b>
Hansard Global	Life assurance savings products	2,713	0.9
<b>Real Estate Investment &amp; Services</b>		<b>3,598</b>	<b>1.1</b>
Countrywide	Property - estate agency	3,598	1.1
<b>Real Estate Investment Trusts</b>		<b>11,130</b>	<b>3.6</b>
Assura Group	Property - healthcare	4,359	1.4
Hansteen Holdings	Property - industrial	5,022	1.6
McKay Securities	Property - London & South East offices	1,749	0.6



## Investment Portfolio

Sector/Security	Business Activity	Value as at 30 June 2014 £'000	% of Total Investments
<b>Financial Services</b>		<b>14,652</b>	<b>4.7</b>
Brewin Dolphin Holdings	Private client fund manager	6,875	2.2
Charles Stanley Group	Stockbroker & private client fund manager	2,754	0.9
Tullett Prebon	Interdealer broker	5,023	1.6
<b>Software &amp; Computer Services</b>		<b>19,310</b>	<b>6.2</b>
Anite	Telecoms test software	602	0.2
Computacenter	IT services	4,593	1.5
Micro Focus	Software - development & testing	6,276	2.0
Microgen	Software - workflow & financial services	1,996	0.6
Phoenix IT Group	IT services & disaster recovery	2,067	0.7
RM	IT services for schools	3,776	1.2
<b>Technology Hardware &amp; Equipment</b>		<b>5,405</b>	<b>1.7</b>
Laird	Electronic systems & controls	4,470	1.4
Promethean World	Educational technology	935	0.3
<b>Total Investments</b>		<b>312,959</b>	<b>100.0</b>

## Other Portfolio Information

### Summary of Material Investment Transactions<sup>1</sup>

For the year ended 30 June 2014

	Cost		Proceeds
Purchases	£'000	Sales	£'000
Vesuvius	8,521	F&C Asset Management	7,195
QinetiQ Group	6,364	Berendsen	6,174
Hogg Robinson Group	5,287	Regus	5,466
Countrywide	4,140	Jupiter Fund Management	3,970
Soco International	3,390	4Imprint Group	3,915
Trinity Mirror	3,353	BBA Aviation	3,564
Card Factory	3,258	Bodycote	3,167
F&C Asset Management	2,765	Playtech	2,965
Stock Spirits Group	2,559	N Brown Group	2,939
Interserve	2,526	Fiberweb	2,876
Morgan Advanced Materials	2,308	CSR	2,857
Carillion	2,306	Dairy Crest Group	2,811
Bovis Homes Group	1,999	Safestore Holdings	2,716
Novae Group	1,973	Paypoint	2,374
McBride	1,747	Synthomer	2,219
Redefine International	1,682	Redefine International	2,093
Shanks Group	1,652	Photo-Me International	2,088
Vitec Group	1,567	Intermediate Capital Group	1,968
McColl's Retail Group	1,550	HellermannTyton Group	1,945
McKay Securities	1,516	RPS Group	1,897
Other Purchases	13,226	Other Sales	6,592
<b>Total Purchases</b>	<b>73,689</b>	<b>Total Sales</b>	<b>71,791</b>

### FTSE Industry Classification Exposure Analysis

Sector	← 30 June 2013 →		Net Purchases/ (Sales) <sup>1</sup> £'000	Net Appreciation/ (Depreciation) <sup>1</sup> £'000	← 30 June 2014 →	
	Portfolio Weight %	Portfolio Valuation £'000			Portfolio Valuation £'000	Portfolio Weight %
Oil & Gas	0.1	217	3,390	64	3,671	1.2
Basic Materials	2.3	5,642	(1,055)	828	5,415	1.7
Industrials	43.6	107,643	6,151	27,311	141,105	45.1
Consumer Goods	3.9	9,693	2,122	3,920	15,735	5.0
Health Care	-	-	-	-	-	-
Consumer Services	22.4	55,465	(2,410)	20,754	73,809	23.6
Telecommunications	1.7	4,156	-	541	4,697	1.5
Utilities	-	-	-	-	-	-
Financials	16.7	41,329	(3,683)	6,166	43,812	14.0
Technology	9.3	23,029	(2,617)	4,303	24,715	7.9
	<b>100.0</b>	<b>247,174</b>	<b>1,898</b>	<b>63,887</b>	<b>312,959</b>	<b>100.0</b>

### FTSE Index Classification Exposure Analysis

Index Classification	← 30 June 2013 →			← 30 June 2014 →		
	Number of Companies	Portfolio Valuation £'000	Weight %	Number of Companies	Portfolio Valuation £'000	Weight %
FTSE 100	-	-	-	-	-	-
FTSE 250	37	138,509	56.0	29	171,935	54.9
FTSE SmallCap	29	88,655	35.9	32	118,703	37.9
FTSE Fledgling	7	8,666	3.5	6	8,233	2.7
Other	4	11,344	4.6	5	14,088	4.5
	<b>77</b>	<b>247,174</b>	<b>100.0</b>	<b>72</b>	<b>312,959</b>	<b>100.0</b>

<sup>1</sup> Includes transaction costs of £681,000

The Strategic Report, contained on pages 1 to 16, has been approved by the Board of Directors on 28 July 2014 and signed on its behalf by

Jonathan Cartwright  
Chairman



# Governance Report

## Board of Directors

### **Jonathan Cartwright (Chairman) FCA**

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Appointed 30 March 2010

Jonathan Cartwright is a Chartered Accountant and is a former Finance Director of Caledonia Investments plc having retired in 2009. He joined Caledonia Investments plc, one of the UK's largest investment trusts, in 1989 having previously held the role of Financial Controller at Hanson plc and qualifying as a Chartered Accountant with KPMG. He is a non-executive Director of The Income & Growth VCT plc and Chairman of BlackRock Income & Growth Investment Trust plc.

### **Michael Greig FCMA, MA, MSc**

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Appointed 30 March 2010

Michael Greig is Chairman of the Audit Committee. He is a Chartered Management Accountant and was until March 2010 the Chief Financial Officer of RM plc. Prior to joining RM plc as Finance Director in 1989, he was Finance Director at Case Group plc. He is a former non-executive Director of CODA plc and Comino Group plc.

### **Dominic Fisher**

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Appointed 30 March 2010

Dominic Fisher is a member of the Audit Committee. He is the founder of Thistledown Investment Management Ltd and has worked as an investment manager since 1989. From 1992 to 2001 he worked for Mercury Asset Management (subsequently Merrill Lynch Investment Managers) heading the charities division responsible for management of £2.4 billion of funds and was a member of the smaller companies team. He is a Director of the Armed Forces Charities Advisory Company and head of its investment sub-committee.

### **Graham Menzies BSc, MSc**

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Appointed 15 October 2010

Graham Menzies spent fourteen years at Adwest Automotive plc, the last nine years as Group CEO. From 2000 until 2008, he was Group CEO of Senior plc. He is also a non-executive Director of RLC (UK) Ltd, a privately owned aerospace manufacturing group.

### **John Richards CA**

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Appointed 12 August 2011

John Richards is a member of the Audit Committee and is a Chartered Accountant. He spent 26 years at The Miller Group Limited and was Group Finance Director from 1994 to 2013. He was a Director of Aberforth Geared Capital & Income Trust plc from 2003 until August 2011 and chaired its Audit and Management Engagement Committee from 2004.

# Directors' Report

The Directors present their Annual Report together with the audited financial statements for the year ended 30 June 2014

## Investment Objective, Investment Policy, Investment Strategy and Risks

The Investment Objective, Investment Policy, Investment Strategy and Risks are explained fully in the Strategic Report on pages 4 to 6

## Return and Dividends

The total return attributable to Ordinary Shareholders for the year ended 30 June 2014 was a gain of £66,133,000 (2013: gain of £54,825,000) As at 30 June 2014 the net asset value per Ordinary Share was 200.04p (2013: 147.49p) and per ZDP Share was 131.30p (2013: 123.01p)

Your Board is pleased to declare a second interim dividend of 4.85p (2013: 4.53p) per Ordinary Share and a special dividend of 1.2p (2013: 1.00p) per Ordinary Share, which results in total dividends for the year ended 30 June 2014 of 8.37p (2013: 7.70p) per Ordinary Share. The second interim dividend and the special dividend will be paid on 28 August 2014 to Ordinary Shareholders on the register at close of business on 8 August 2014. The first interim dividend of 2.32p (2013: 2.17p) per Ordinary Share was paid on 27 February 2014.

## Directors

The Directors of the Company during the financial year are listed on page 17. The Directors have signed letters of appointment to formalise their terms of engagement. These are available on request and at the Company's Annual General Meeting (AGM). Directors appointed by the Board are subject to election by Shareholders at the first AGM following their appointment. Directors are required to submit themselves for re-election at least once in every three years thereafter in accordance with the AIC Code and the Company's Articles of Association.

Accordingly Dominic Fisher retires as a Director at the AGM to be held on 16 October 2014 and, being eligible, he offers himself for re-election. His biographical details are shown on page 17. The Board believes that Dominic Fisher continues to be effective in his role as non-executive, bringing a wealth of knowledge and experience and recommends his re-election to Shareholders.

Details of Directors' shareholdings and remuneration are shown on pages 31 and 32.

## Company Status

The Company is registered as a public limited company and is an investment company as defined by Section 833 of the Companies Act 2006. The Directors are of the opinion that the Company has conducted its affairs during the year ended 30 June 2014 so as to maintain approval as an Investment Trust under section 1158 of the Corporation Tax Act 2010.

The Company has share capital consisting of Ordinary Shares and Zero Dividend Preference Shares (ZDP Shares). The Company is listed and its two share classes trade on the London Stock Exchange. Furthermore the Company is subject to the laws and regulations relating to UK listed companies. It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. In common with the majority of investment trusts, the Company has no executive Directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial, registrar, depositary and custodial activities of the Company. The Corporate Governance Report within this Annual Report contains a thorough review of the Company's stance on corporate governance.

The Company is a member of the Association of Investment Companies (AIC).

## Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an Investment Trust. In respect of the year ended 30 June 2014, the main qualifying requirements included:

- the Company must invest in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds;
- the Company's Shares are listed on a regulated market such as the London Stock Exchange;
- the Company must not retain in respect of each accounting period more than 15% of its total income, and
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an Investment Trust for accounting periods commencing on or after 1 July 2012 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an Investment Trust.

# Directors' Report

## Duration of the Company

The Company has a planned life lasting until 30 June 2017. The Directors are required by the Company's Articles of Association to convene a general meeting of the Company on, or within the three months prior to 30 June 2017, at which a special resolution will be proposed to wind up the Company voluntarily by not later than the planned winding-up date. As these arrangements are designed to ensure that the ZDP Shareholders will be entitled to realise their investment, weighted voting provisions shall apply so as to ensure that this resolution will be passed if any Shareholder votes in favour. However, before this date, the Directors will examine means whereby holders of Ordinary Shares may effectively continue their investment in a tax efficient manner while allowing the ZDP Shareholders to realise their investment. The Directors may be released from the obligation to call a general meeting if a special resolution has been passed to that effect not later than 30 June 2017.

## Management

Aberforth Partners LLP (Aberforth Partners), a limited liability partnership, provides investment management, administration and company secretarial services to the Company. These services can be terminated by either party at any time by giving six months' notice of termination. Compensation fees would be payable in respect of this six month period if termination were to occur sooner. Aberforth Partners receives an annualised management fee equal to

- 1% of the Company's Net Assets attributable to Ordinary Shareholders, plus
- 5% of the total income (excluding any tax credit); plus
- Base fee of £68,000

The management fee is calculated on a quarterly basis and is paid in advance. The base fee is adjusted annually in line with the Retail Prices Index. Based on the Balance Sheet as at 30 June 2014 and the income for the year then ended, the annualised management fee would be approximately 0.9% (2013: 0.9%) of Total Assets. The total management fee for the year ended 30 June 2014 was £2,636,000 (2013: £1,922,000) and of this, 70% was charged to capital reserves and 30% to the revenue account.

The Board considers the Company's investment management and secretarial arrangements on an on-going basis and conducts a formal review annually. The Board considers the following topics in its review: investment performance in relation to the investment objective, the continuity of personnel managing the assets and reporting to the Board, the level of service provided in terms of the accuracy and timeliness of reports to the Board, and the frequency and quality of both verbal and written communications with Shareholders. Following the most recent review the Board is of the opinion that the continued appointment of Aberforth Partners as manager, on the terms agreed, is in the best interests of Shareholders as a whole.

## Overdraft facility

The Company has a £2 million overdraft facility with The Royal Bank of Scotland plc, which is subject to renewal on 31 October 2014. The interest rate applying to overdrawn balances is 2.25% over the UK Base Rate and an arrangement fee of £20,000 (2013: £20,000) was incurred in respect of the existing facility. During the year ended 30 June 2014 the highest utilisation of the overdraft facility was £1.5 million (2013: £0.9 million).

## Dividend Policy

To maintain its Investment Trust status the Company, amongst other conditions, must not retain more than 15% of its total income which ordinarily requires a significant proportion of the Company's total income to be distributed as dividends. The Company's dividend policy is to pay two dividends in respect of each financial year: a first interim dividend is paid in February and a second interim dividend is paid in August. A second interim dividend is paid rather than a final dividend in order to expedite the disbursement for the benefit of Shareholders.

## Capital Structure

The Company has two classes of Shares. At 30 June 2014 the Company's share capital consisted of Ordinary Shares, of which 109.5 million were issued, allotted and fully paid and, ZDP Shares, of which 73 million were issued, allotted and fully paid. The Ordinary Shares represent 60% of the Company's issued share capital and the ZDP Shares represent 40% of the Company's issued share capital. No Shares were held in treasury as at 30 June 2014.

# Directors' Report

## Ordinary Shares

Ordinary Shareholders are entitled to the net assets of the Company on a winding-up, after all liabilities of the Company have been settled and the entitlements of the ZDP Shares have been met. In addition, Ordinary Shareholders will be entitled on a winding-up to receive any undistributed revenue reserves of the Company, which will be paid in the form of a pre-liquidation dividend or during the course of the liquidation, subject to all creditors of the Company having been paid out in full and even if the cover on the ZDP Shares is at the time less than one. The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares will be geared by the rising capital entitlements of the ZDP Shares. Accordingly, the Ordinary Shares should be regarded as carrying above average risk.

## Zero Dividend Preference Shares

The ZDP Shares were issued with a targeted final capital entitlement of 159.7p per ZDP Share on the planned winding-up date of 30 June 2017. This represents a redemption yield of 6.75% per annum over the life of the ZDP Shares, based on the Issue price of 100p at launch on 30 April 2010. Under current legislation, the increase from the Issue Price to 159.7p per ZDP Share will generally be treated as a capital gain for UK tax purposes. The holders of ZDP Shares are not entitled to receive dividend payments. ZDP Shares have been recorded as a liability in the Company's Balance Sheet.

## Going Concern

In accordance with the report "Going Concern and Liquidity Risk - Guidance for Directors of UK Companies 2009" issued by the Financial Reporting Council, the Audit Committee has undertaken and documented an assessment of whether the Company is a going concern, reporting this assessment to the Board.

The Company's investment objective, policy and strategy, together with the factors likely to affect its development, performance and position are set out in the Strategic Report. In addition, the Annual Report includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements. The Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe the Company is well placed to continue to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future.

In summary and taking into consideration all available information, the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis.

## Alternative Investment Fund Managers Directive (AIFMD)

The Company is an Alternative Investment Fund (AIF) in the context of the AIFMD and has appointed Aberforth Partners LLP as its Alternative Investment Fund Manager (AIFM) and National Westminster Bank plc as its Depositary. The respective roles of AIFM and Depositary commenced on 1 July 2014. As permitted by the Directive the Depositary has delegated custody services to The Northern Trust Company.

## Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code issued in September 2012, can be found on pages 23 to 26 and forms part of this report.

## Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the principal operational activities of the Company, it has no greenhouse gas emissions to report, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

## Voting Rights of Shareholders

Ordinary Shareholders have the right to receive notice of, to attend and to vote at general meetings of the Company. Each Ordinary Shareholder has one vote on a show of hands and, on a poll, one vote for every Ordinary Share held. The right of Ordinary Shareholders to vote on certain resolutions on the winding-up, reconstruction or reorganisation of the Company is subject to the restrictions set out in the Articles. Votes are required to be lodged with the Company's Registrar 48 hours before a meeting (excluding non-working days). The holders of ZDP Shares do not have the right to receive notice of any general meeting of the Company or to attend or vote at any such meeting except in respect of any resolution (i) to vary the special rights or

## Directors' Report

privileges attached to the ZDP Shares, (ii) to wind up the Company. Their separate approval as a class will be required for certain proposals that would be likely to affect their position materially.

### Notifiable Share Interests

The Board has received notifications of the following interests in 3% or more of the total voting rights of the Company as at 30 June 2014 and at 28 July 2014. The percentage calculation is based on the total voting rights of 109,500,000 Ordinary Shares

Interested person	Percentage of Voting Rights Held
CCLA Investment Management Ltd	10.0%
Witan Investment Trust plc	5.8%
Ballie Gifford & Co	5.2%
David Ross	4.1%

### Annual General Meeting

The AGM will be held at 14 Melville Street, Edinburgh EH3 7NS at 2.00 pm on 16 October 2014. The Notice of the Meeting and explanatory notes are set out on pages 58 to 60 of the Annual Report and Accounts.

The Directors consider each resolution being proposed at the AGM to be in the best interests of Shareholders as a whole and they unanimously recommend that all Shareholders vote in favour of them, as they intend to do so in respect of their own beneficial shareholdings.

### Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, ZDP Shares, receivables and payables that arise directly from its operations, such as sales and purchases of securities awaiting settlement, and accrued income. The main risks that the Company faces arising from its financial instruments are disclosed in Note 21 to the financial statements.

### Section 992 of the Companies Act 2006

The following information is disclosed in accordance with section 992 of the Companies Act 2006:

- The Company's capital structure and voting rights are summarised on pages 19 to 21.
- Details of the substantial Ordinary Shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are set out on page 18.
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's Shares require a special resolution to be passed by Shareholders.
- There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, and no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

### Bribery Act 2010

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

### Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as Auditors and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

## Directors' Report

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information, and to establish that the Company's Auditors are aware of that information

### Future Developments

The future success of the Company is dependent primarily on the performance of its investment portfolio. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective and the stated investment policy and strategy.

By Order of the Board

For and on behalf of Aberforth Partners LLP, Secretaries

14 Melville Street, Edinburgh EH3 7NS

28 July 2014





# Corporate Governance Report

## Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. This Corporate Governance Report, which forms part of the Directors' Report, outlines how the Company has applied the principles of the UK Corporate Governance Code ("the Code"), issued by the Financial Reporting Council ("FRC") in September 2012

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("the AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"), both issued in February 2013. The AIC Code addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. Both the AIC Code and the AIC Guide are available from the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk)

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code will provide more relevant information to Shareholders, whilst meeting the Board's obligations under the UK Corporate Governance Code. The Board is available to discuss corporate governance matters with Shareholders

## Compliance

Throughout the year ended 30 June 2014 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as explained below where the Company does not believe it appropriate to comply

The Board, being small in size and composed entirely of independent non-executive Directors, has not appointed a Remuneration or a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole. The Board has also decided not to nominate a Deputy Chairman or a Senior Independent Director, although Michael Greig, as Chairman of the Audit Committee, fulfils this role when necessary, for example, in taking the lead in the annual evaluation of the Chairman

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive Directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

## Social, Environmental and Ethical Issues

The Managers' Corporate Governance Policy and Stewardship Code Statement are available from their website ([www.aberforth.co.uk](http://www.aberforth.co.uk))

The Directors, through the Managers, encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Board and the Managers support the Statement of Principles of the Institutional Shareholders Committee, which sets out the responsibilities of institutional shareholders and agents

Effective management of risks and opportunities posed by social, environmental and ethical (SEE) issues is an important component of good corporate governance. Companies that ignore significant corporate responsibilities risk serious damage to their reputation, brand and shareholder value, as well as litigation and operational risks

The Managers believe that sound SEE policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of SEE concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes

## Voting Policy

The Board has given discretionary voting powers to the Managers who exercise these voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned

# Corporate Governance Report

The Board receives quarterly reports from the Managers on governance issues (including voting) arising from investee companies and periodically reviews and endorses the Managers' voting guidelines and their stance towards SRI and SEE matters

## The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for decision of the Board has been adopted. The Board of Directors comprises five independent non-executive Directors including Jonathan Cartwright who acts as Chairman. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Company has neither executive Directors nor employees. However, the Board has engaged external firms to provide investment management, secretarial, registrar, depositary and custodial services to the Company. Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated authority to them.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. The Board considers all of the Directors to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

The Board as a whole acts as the Management Engagement Committee under the chairmanship of Jonathan Cartwright and reviews the terms of appointment and remuneration of all the Company's third party service providers. The Board formally evaluates the Managers, including performance and quality of reporting to the Board and Shareholders. The Board also reviews the terms of the arrangements with the Managers and the Secretaries annually, including the level of service, the basis of fees payable and the length of the notice period. A summary of these arrangements are set out in the Directors' Report on page 19.

## Board Performance

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including its role, processes and interaction with the Managers. This review covers the performance of the Board, the Audit Committee, and each Director and is conducted by way of an evaluation questionnaire. The Board then considers the results of this exercise, together with other relevant discussion areas. The appraisal of the Chairman is led by Michael Greig as Chairman of the Audit Committee. The Board does not currently consider that the use of external consultants to facilitate this evaluation is likely to provide any meaningful benefit, though the option to do so is kept under review.

## Board Structure & Diversity

The Board continually reviews its composition having regard to the present and future needs of the Company. This includes consideration of the diversity and balance of expertise and skills of individual Directors. The Board comprises five male and no female Directors. As the Board is small in number and there are no employees, the Board does not consider it appropriate to set a policy on gender diversity.

Should the Board conclude that additional Directors are required, the appointment process would be initiated. Potential Directors would be invited to meet the members of the Board prior to a decision on their appointment being made by the Board as a whole. To date, the Board has not found it necessary to appoint external search consultants nor to use open advertising.

## Induction and Training

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. All Directors are entitled to receive appropriate training when required and the Company provides the necessary resources for developing and updating Directors' industry knowledge. Directors, in the furtherance of their duties, may seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

All Directors have access to the advice and services of the company secretarial services provided by Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

# Corporate Governance Report

## Directors' Insurance and Indemnification

The Company maintains Directors' and Officers' liability insurance cover in respect of legal action against its Directors.

The Company has also entered into a qualifying third party deed of indemnity with each Director. The deeds were in force during the year ended 30 June 2014 and as at the date on which the financial statements were approved. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fees.

## Meetings

The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance. The Directors also review important areas including

- the Company's investment activity over the quarter relative to its investment policy,
- the stockmarket environment,
- the revenue, balance sheet and gearing position,
- performance in relation to comparable investment trusts,
- share price discount or premium (both absolute levels and volatility),
- regulatory matters,
- relevant industry issues;
- composition of the Company's share register, and
- significant changes in Shareholders

The Board also holds an annual strategy meeting to consider, amongst other matters, the Company's objective, and investment focus and style.

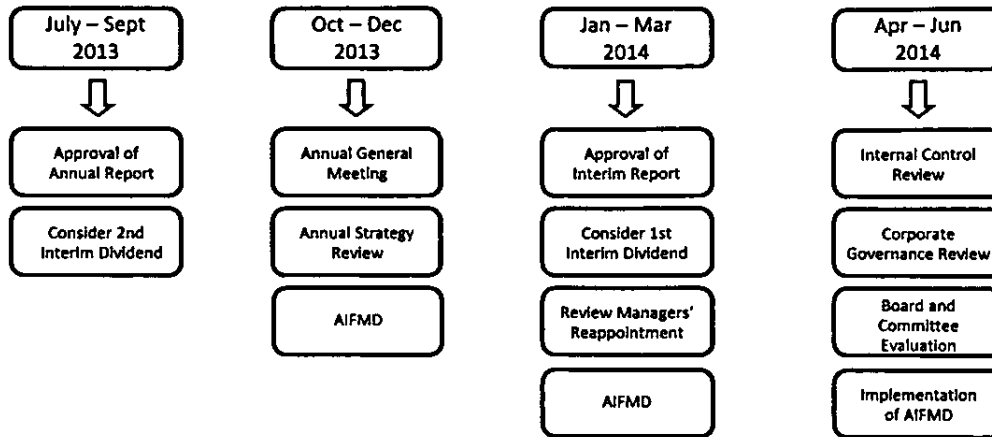
The following table sets out the number of scheduled Board and Audit Committee Meetings and other meetings held during the year ended 30 June 2014 and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the AGM in October 2013.

Director	Board	Audit Committee	Other meetings
<b>Number of Meetings.</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Directors' Attendance:</b>			
Jonathan Cartwright	4	–	1
Michael Greig <sup>1</sup>	4	3	2
Dominic Fisher <sup>1</sup>	4	3	–
Graham Menzies	4	–	2
John Richards <sup>1</sup>	4	3	1

<sup>1</sup>Member of the Audit Committee

# Corporate Governance Report

The following summarises the various matters considered by the Board during the year ended 30 June 2014



## Risk Management and Internal Control

The Board has overall responsibility for the Company's risk management and internal control systems and has conducted a review of their effectiveness. The Company applies the revised guidance published in October 2005 by The Institute of Chartered Accountants in England and Wales in respect of The Code's sections on Internal Control (commonly known as the Turnbull Guidance on Internal Control). Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can only provide reasonable and not absolute assurance against material mis-statement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the financial information of the Company is reliable. The Directors have an on-going process for identifying, evaluating and managing the significant risks faced by the Company and these are recorded in a risk matrix. This was in operation during the year and continues in place up to the date of this report. The Directors regularly conduct a formal review of the effectiveness of the Company's systems of risk management and internal control. This process principally comprises the Audit Committee receiving and examining reports from Aberforth Partners LLP, the Northern Trust Company (the Company's Custodian) and Capita Registrars Limited (the Company's Registrar). The reports detail the internal control objectives and procedures adopted by each firm and the reports have been independently reviewed by their respective external Auditors. The Audit Committee then submits a detailed report on its findings to the Board. The Directors have not identified any significant failures or weaknesses in respect of the Company's risk management and internal control systems.

## Conflicts of Interest

Company directors have a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures for authorising any actual or potential conflicts of interest though no such conflicts arose during the period under review.

## Relations with Shareholders

The Board places great importance on communication with Shareholders and receives regular reports from the Managers on views and attitudes of Shareholders. The Managers endeavour to meet all of the larger Shareholders twice a year and provide them with a detailed report on the progress of the Company. Directors of the Company are available to meet with any Shareholder. In addition to the Annual and Interim reports, daily Net Asset Values of the Company's Share classes, monthly Factsheets and other relevant information are published on the Managers' website [www.aberforth.co.uk](http://www.aberforth.co.uk). The Directors may be contacted through the Secretaries whose details are shown on page 57 or through the Chairman's email address which is [jonathan.cartwright@aberforth.co.uk](mailto:jonathan.cartwright@aberforth.co.uk).

Shareholders have the opportunity to attend and vote at the AGM during which the Directors and Managers are available to discuss issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

# Audit Committee Report

## Members of the Audit Committee

The members of the Audit Committee are Michael Greig (Chairman), Dominic Fisher and John Richards

The Committee members have been selected to provide a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The biographies of the Committee members can be found on page 17

## Key Objective

To support the Board in providing effective governance over the Company's financial results, the performance of the external Auditors, the quality of internal controls at key third party service providers, business risks and related compliance activities

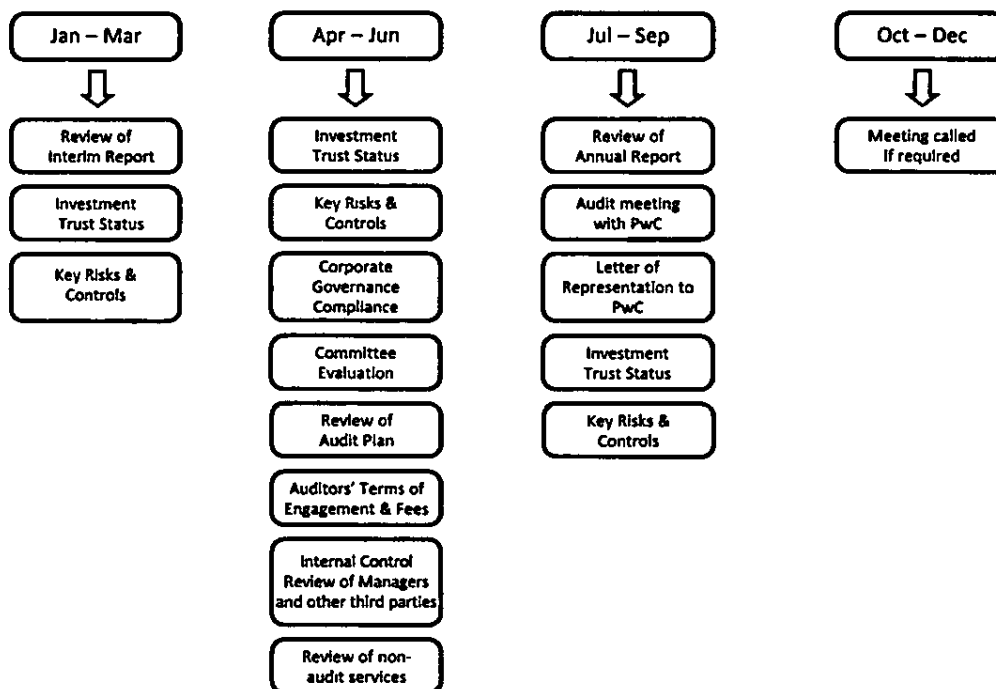
## Principal Responsibilities:

The Committee assists the Board in carrying out its responsibilities in relation to

- reviewing the Interim and annual financial statements and other formal announcements relating to the Company's financial performance with specific focus on accounting policies adopted, judgemental areas and corporate governance,
- reviewing the effectiveness of the Company's internal control and risk management systems,
- making recommendations to the Board on the appointment and remuneration of the external Auditors and approving their terms of engagement and remuneration,
- assessing the Auditors' independence, objectivity and effectiveness,
- reviewing the terms for any non-audit work to be carried out by the external Auditors,
- considering the need for the Company to have its own internal audit function, and
- monitoring compliance with relevant statutory and investment trust requirements

The Chairman reports formally to the Board on the Committee's proceedings after each meeting. To assist with the various duties of the Committee, the following Annual Plan has been approved

## Audit Committee Annual Plan



# Audit Committee Report

## Meetings

Meetings are attended by the members, all of whom are independent non-executive Directors, and, by invitation, the Directors who are not members and representatives of the Secretaries. Three meetings are typically scheduled each year, although additional meetings are held as deemed necessary. PricewaterhouseCoopers LLP ("PwC"), the external Auditors, attended the July 2013 and July 2014 meetings. The Committee operates within terms of reference that have been agreed with the Board. These terms of reference are reviewed annually and are available for inspection on request. Three meetings were held in respect of the year ended 30 June 2014. The principal matters considered by the Committee are set out below.

## Financial Reporting

The primary role of the Committee is to review the financial reports that are provided to Shareholders, concentrating on, amongst other matters:

- the appropriateness of the accounting policies and clarity of disclosures,
- principal risks including safekeeping and valuation of investments and the accounting for special dividends, and
- areas in which significant judgements have been applied or where there has been substantial discussion with the external Auditor

The Committee considers reports from the external Auditor on the preparation and audit of the financial statements and from the Secretaries on this and other relevant matters. In addition the Committee seeks to ensure that the Company maintains its investment trust status.

In relation to the 2014 Annual Report, the significant matters considered by the Committee included

- assessing the underlying basis for the special dividends declared by investee companies and concluding that it was appropriate to account for each special dividend as "revenue"
- verifying that investments held as at 30 June 2014 were valued using bid prices sourced from a third party data provider and that no differences existed between the portfolio holdings recorded in the Company's accounting records and those held by the Custodian

## Going Concern

The Committee received a report from the Secretaries on going concern, including guidance published by the FRC, and discussed the liquidity of the portfolio, trading activity, portfolio diversification, and the existing overdraft facility. After due consideration, the Committee concluded it was appropriate to prepare the 2014 Annual Report on a going concern basis and made this recommendation to the Board.

## Key Risks and Controls

The Committee reviewed the Company's Key Risks and Control Matrix and identified the controls in place to mitigate the risks by the Board, the Manager and other service providers. During the year the Committee enhanced the design and content of the Key Risks and Control Matrix to ensure it continued to reflect accurately the Board's views of the Company's risks and controls.

The Committee considered the Managers' report on internal controls, including an assurance report issued by PwC, whose responsible director submitted a full report on their work in October 2013 and gave a presentation at the Audit Committee meeting in July 2014. In addition, the Committee received internal control reports from each of the Company's Custodian and Registrar. The Committee reviewed all three reports and was satisfied that there were no significant issues.

The Committee also considered whether there was a need for an internal audit function. The Committee concluded that, as the Company has no employees and receives internal control reports, including independent assurance reports, from its key third party suppliers, an internal audit function is not necessary.

# Audit Committee Report

## Audit Planning & Audit Fees

The Committee received a detailed audit plan from PwC in April 2014, before work started on the 2014 audit. This plan set out the scope of the audit work, principal audit risks, the proposed timetable, full justification for PwC's independence and the quality of their work, and a formal fee proposal. The key risks identified by PwC included the valuation and ownership of investments. The Committee held direct discussions with the Auditors, providing an opportunity for dialogue on any potentially sensitive matters or concerns without the Secretaries being present.

Fees paid to PwC relating to the audit amounted to £24,000 for the year ended 30 June 2014 (2013: £24,000).

## Evaluation of the Auditor

The Committee reviewed the effectiveness of the Auditor by

- discussing the audit and audit process with the PwC audit partner and senior manager,
- considering the experience, continuity and tenure of the audit team, including the audit partner,
- considering feedback on the audit provided by the Secretaries.

Following completion of the audit the Committee reviewed the audit process with the PwC partner and senior manager, noting that there were no material variations from the pre-agreed audit plan. The Committee acknowledged that the PwC audit team comprised staff with appropriate levels of experience and a good knowledge of the investment trust sector and the current audit partner had served for two years. The Committee also noted the positive feedback provided by the Secretaries on PwC's execution of the audit process. Additionally, PwC provided confirmation that they had complied with the relevant UK professional and regulatory requirements on independence. The Committee agreed that there was no evidence to suggest that PwC's independence has been impaired.

Taking into account the findings of its evaluation, the Committee considered that PwC had carried out the audit and their duties as Auditor in a professional and effective manner and recommended to the Board their re-appointment. The Board supported this recommendation and a proposal to re-appoint PwC will be put to Shareholders at the forthcoming AGM.

PwC have provided audit services to the Company from its incorporation in 2010 to date. The Audit Committee is aware that the EU has proposed changes that will substantially change the statutory audit of public interest enterprises, which include UK listed companies on regulated financial markets. These changes are in addition to guidance issued by the Financial Reporting Council and the findings of the UK Competition Commission. The Financial Reporting Council is currently revising its guidance. In light of these changes and until the final regulations and guidance has been issued, the Audit Committee will keep this matter under review.

## Non-Audit Services

Fees of £4,900 were paid during the year to PwC relating to routine tax compliance services, including the completion and submission of the corporation tax return and the preparation of iXBRL formatted accounts. Prior to any engagement for non-audit services the Audit Committee considers whether the Auditor is a suitable supplier of these services and whether there is a threat to objectivity and independence in the conduct of their audit. The Audit Committee is satisfied that the nature and extent of the tax work undertaken did not impair PwC's objectivity and independence in the conduct of the audit.

## Committee Evaluation

A formal annual review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The conclusion was that the Committee continues to operate effectively with no significant concerns expressed.

Michael Greig

Audit Committee Chairman

28 July 2014

## Directors' Remuneration Policy

This section provides details of the remuneration policy for the Directors of the Company. All Directors are appointed under the terms of letters of appointment and none has a service contract. The Company has no employees.

The Board has prepared this policy in accordance with the requirements of the Companies Act 2006. An ordinary resolution will be put to members at the forthcoming Annual General Meeting for the approval of this policy. If the resolution is passed, the policy provisions will be effective with immediate effect and will apply until they are next put to Shareholders for approval, which must be at intervals of not more than three years. This Policy, together with the Directors' letters of appointment may be inspected at the Company's registered office.

The Board is composed wholly of non-executive Directors who together consider and determine all matters relating to the Directors' remuneration at the beginning of each financial period. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

### Policy on Directors' Remuneration

The Company's policy is that the remuneration of the Directors should be commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of appropriate quality and experience. No Shareholder has expressed views to the Company in respect of Directors' remuneration. Remuneration Policy is not subject to employee consultation as the Company has no employees.

The Board, at its discretion, shall determine Directors' remuneration subject to the aggregate annual fees not exceeding £150,000 in accordance with the Company's Articles of Association. Such remuneration is solely composed of Directors' fees and Directors are not eligible for any other remuneration.

The fees paid to Directors in respect of the year ended 30 June 2014 and the fees payable in respect of the year ending 30 June 2015 are set out in the table below. The fees payable to Directors in subsequent financial periods will be determined following an annual review.

	Fees for year ending 30 June 2015 £	Fees for year ended 30 June 2014 £
Chairman of the Company	28,690	27,850
Director and Chairman of the Audit Committee	26,390	25,620
Director and Member of the Audit Committee	22,950	22,280
Director	22,950	22,280

It is intended that this policy will remain in place for the following financial year and subsequent periods.

### Loss of Office

A Director may be removed without notice and no compensation will be due on loss of office.

### Expenses

All Directors are entitled to the reimbursement of expenses paid by them in order to perform their duties as a Director of the Company.

### Review of the Remuneration Policy

The Board has agreed to review the above policy at least annually to ensure that it remains appropriate.



## Directors' Remuneration Report

The Board has prepared this Directors' Remuneration Report in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors' to audit certain elements of this report and these elements are described below as "Audited". The Auditors' opinion is included in the Independent Auditors' Report on pages 34 to 37.

### Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to re-election by Shareholders. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter no less frequently than at every third subsequent Annual General Meeting. The terms also provide that a Director may be removed without notice and that no compensation will be due on loss of office. The terms and conditions of appointment of Directors are available for inspection at the office of Aberforth Partners LLP during normal business hours and at the registered office of the Company on request.

The following Directors held office during the year

Director	Date of Appointment	Date of Re-appointment	Unexpired Term
Jonathan Cartwright, Chairman	30 March 2010	30 March 2013	1 year 8 months
Michael Greig	30 March 2010	30 March 2013	1 year 8 months
Dominic Fisher	30 March 2010	30 March 2013	1 year 8 months <sup>1</sup>
Graham Menzies	15 October 2010	15 October 2013	2 years 9 months
John Richards	12 August 2011	25 July 2014	3 years 0 months

<sup>1</sup> The unexpired term for Dominic Fisher is subject to his re-election at the Annual General Meeting on 16 October 2014.

### Directors' Fees (Audited)

The emoluments of the Directors who served during the year were as follows

	Fees (Total Emoluments)	
	2014	2013
	£	£
Jonathan Cartwright, <i>Chairman</i>	27,850	27,000
Michael Greig, <i>Chairman of the Audit Committee</i>	25,620	24,900
Dominic Fisher	22,280	21,600
Graham Menzies	22,280	21,600
John Richards	22,280	21,600
	<b>120,310</b>	<b>116,700</b>

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, pension contributions or other benefits. In respect of the year ended 30 June 2014 a total of £9,130 (2013 £21,600) of John Richards' fees were paid to The Miller Group Limited for making his services available as a Director of the Company.

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends

	2014	2013	Absolute change
	£'000	£'000	£'000
Total Directors' remuneration	120	117	+3
Total dividends in respect of that year	9,166	8,431	+735

# Directors' Remuneration Report

## Share Price Performance

As required by the Companies Act 2006, the adjacent graph compares the performance of the Ordinary Share price since launch with the performance of an index on a total return basis (assuming all dividends reinvested) The NSCI (XIC) has been selected since it represents the universe of companies in which the Company may invest However, the more important influence on the share price performance of the Ordinary Shares over the Company's lifetime is likely to be its success in meeting the investment objective, as described on page 4 Specifically, the portfolio must generate a high level of income and sufficient capital growth to pay the final entitlement of the ZDP Shareholders and the costs incurred by the Company

## Statement of Directors' Shareholdings and Share Interests (Audited)

The Directors who held office at any time during the year ended 30 June 2014 and their interests (in respect of which transactions are notifiable to the Company under DTR 3 1.2R) in the Shares of the Company as at 30 June 2014 were as follows

Directors	Nature of Interest	Ordinary Shares		ZDP Shares	
		30 June 2014	30 June 2013	30 June 2014	30 June 2013
Jonathan Cartwright	Beneficial	12,240	12,240	8,160	8,160
Michael Greig	Beneficial	66,516	41,826	8,160	8,160
Dominic Fisher	Beneficial	79,106	78,486	–	–
Graham Menzies	Beneficial	97,800	65,000	–	–
	Non-beneficial	33,065	6,300	–	–
John Richards <sup>1</sup>	Beneficial	–	90,805	–	–

<sup>1</sup> John Richards no longer has a beneficial interest in the Shares reported as at 30 June 2013

There has been no change in the beneficial or non-beneficial holdings of the Directors between 30 June 2014 and 28 July 2014 The Company has no share options or any share schemes Directors are not required to own Shares in the Company

## Statement of Voting at the last Annual General Meeting

At the Annual General Meeting held on 22 October 2013, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report Votes cast in favour of the resolution amounted to 41,682,287 (100.0%) and votes cast against were nil (0.0%) A further 1,000 votes were withheld

## Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report summarises, as appropriate, for the year ended 30 June 2014

- (a) the major decisions on Directors' remuneration,
- (b) any substantial changes relating to Directors' remuneration made during the year, and
- (c) the context in which those changes occurred and decisions have been taken

Jonathan Cartwright  
Chairman  
28 July 2014



# Directors' Responsibilities Statement

## Statement of Directors' Responsibilities in Relation to the Financial Statements

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Report of the Directors, the Corporate Governance Statement, the Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial period in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, that disclose with reasonable accuracy at any time the financial position of the Company and that enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Company are published on [www.aberforth.co.uk](http://www.aberforth.co.uk). This website is maintained by Aberforth Partners LLP and its integrity is, so far as it relates to the Company, the responsibility of Aberforth Partners LLP. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## Responsibility Statement under the Disclosure and Transparency Rules

The Directors who were in office at the date of approving these financial statements, and who are listed on page 17, confirm to the best of their knowledge that

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company, and
- the Strategic Report includes a fair review of the development and performance of the business and financial position of the Company, together with a description of the principal risks and uncertainties that it faces

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.



For and on behalf of the Board  
Jonathan Cartwright, *Chairman*

28 July 2014

# Independent Auditors' Report

To the Members of Aberforth Geared Income Trust plc

## Report on the financial statements

### Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

### What we have audited

The financial statements, which are prepared by Aberforth Geared Income Trust plc, comprise

- the Statement of Comprehensive Income for the year ended 30 June 2014,
- the Balance Sheet as at 30 June 2014,
- the Statement of Changes in Equity for the year then ended,
- the Cash Flow Statement for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Overview of our audit approach

#### Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole to be £2.2m. This represents approximately 1% of Net Assets. We have based our materiality on Net Assets as we believe this is the most appropriate measure of the Company's performance. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £110,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Overview of the scope of the audit

The Company is a standalone Investment Trust Company managed by an independent investment manager, Aberforth Partners LLP (the "Managers"). The financial statements, which remain the responsibility of the

## Independent Auditors' Report

Directors, are prepared on their behalf by the Managers. In establishing the overall approach to our audit we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the Company's interaction with the Managers and we assessed the control environment in place at the Managers, to the extent relevant to our audit of the Company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

### Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 28 to 29.

Area of focus	How the scope of our audit addressed the area of focus
<b>Valuation and ownership of Investments</b> We focused on this area because investments represent the principal element of the financial statements	The investment portfolio comprises listed equity investments  We tested the valuation of the investment portfolio by agreeing the valuation of investments to independent third party sources  We tested the existence of the investment portfolio by agreeing the holdings to an independent Custodian confirmation
<b>Risk of management override of internal controls</b> ISAs (UK & Ireland) require that we consider this	We tested a sample of journal entries to determine whether adjustments were supported by evidence and appropriately authorised  We built an element of unpredictability into our detailed testing by testing immaterial expense items

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 20, in relation to going concern. We have nothing to report having performed our review. As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

# Independent Auditors' Report

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements,
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Corporate Governance Statement set out on page 26 with respect to internal control and risk management systems and about share capital structures, on pages 19 and 20, is consistent with the financial statements

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility. Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 33 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy. On page 28, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the Directors is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- is otherwise misleading

We have no exceptions to report arising from this responsibility

### Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility.

# Independent Auditors' Report

## Responsibilities for the financial statements and the audit

### **Our responsibilities and those of the Directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Allan McGrath (*Senior Statutory Auditor*)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh

28 July 2014

# Statement of Comprehensive Income

Year ended 30 June 2014

	Notes	Year ended 30 June 2014			Year ended 30 June 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Income</b>							
Investment income	3	11,242	-	11,242	10,335	-	10,335
Other income	3	7	-	7	18	-	18
Gains on investments held at fair value through profit or loss	13	-	64,568	64,568	-	53,065	53,065
<b>Total income and gains</b>		<b>11,249</b>	<b>64,568</b>	<b>75,817</b>	<b>10,353</b>	<b>53,065</b>	<b>63,418</b>
<b>Expenses</b>							
Transaction costs	8	-	(681)	(681)	-	(716)	(716)
Investment management fee	5	(791)	(1,845)	(2,636)	(577)	(1,345)	(1,922)
Other operating expenses	6	(288)	-	(288)	(264)	-	(264)
<b>Total expenses</b>		<b>(1,079)</b>	<b>(2,526)</b>	<b>(3,605)</b>	<b>(841)</b>	<b>(2,061)</b>	<b>(2,902)</b>
<b>Profit before finance costs and taxation</b>		<b>10,170</b>	<b>62,042</b>	<b>72,212</b>	<b>9,512</b>	<b>51,004</b>	<b>60,516</b>
<b>Finance costs</b>							
Appropriation to ZDP Shares	9	-	(6,056)	(6,056)	-	(5,674)	(5,674)
Interest expense	9	(7)	(16)	(23)	(5)	(12)	(17)
<b>Total finance costs</b>		<b>(7)</b>	<b>(6,072)</b>	<b>(6,079)</b>	<b>(5)</b>	<b>(5,686)</b>	<b>(5,691)</b>
<b>Profit before taxation</b>		<b>10,163</b>	<b>55,970</b>	<b>66,133</b>	<b>9,507</b>	<b>45,318</b>	<b>54,825</b>
Taxation	10	-	-	-	-	-	-
<b>Profit after taxation for the year</b>		<b>10,163</b>	<b>55,970</b>	<b>66,133</b>	<b>9,507</b>	<b>45,318</b>	<b>54,825</b>
<b>Earnings per Ordinary Share</b>	12	<b>9.28p</b>	<b>51.11p</b>	<b>60.39p</b>	<b>8.68p</b>	<b>41.39p</b>	<b>50.07p</b>

The Company does not have any other comprehensive income or expenses and hence the net profit for the year as disclosed above is the same as the Company's total comprehensive income

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union. The supplementary revenue return and capital returns columns are both prepared in accordance with the Statement of Recommended Practice published by the Association of Investment Companies in January 2009

All of the profit and total comprehensive income for the period is attributable to the equity holders of the Company. There are no controlling interests.

The Company does not have any dilutive securities and therefore the Earnings per Share and the Diluted Earnings per Share are the same.

The accompanying notes form part of these financial statements



# Balance Sheet

As at 30 June 2014

	Notes	2014 £'000	2013 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	13	312,959	247,174
<b>Current assets</b>			
Receivables	14	1,826	1,954
Cash and cash equivalents	20	211	7,068
<b>Total current assets</b>		<b>2,037</b>	<b>9,022</b>
<b>Total assets</b>		<b>314,996</b>	<b>256,196</b>
<b>Current liabilities</b>			
Payables	15	(102)	(4,895)
<b>Non-current liabilities</b>			
Zero Dividend Preference Shares	16	(95,850)	(89,794)
<b>Total liabilities</b>		<b>(95,952)</b>	<b>(94,689)</b>
<b>Total Net Assets</b>		<b>219,044</b>	<b>161,507</b>
<b>Equity attributable to Equity Shareholders</b>			
Share capital	19	1,095	1,095
Share premium	19	67,345	67,345
Special reserve	19	43,480	43,480
Capital reserve	19	96,558	40,588
Revenue reserve	19	10,566	8,999
<b>Total Equity Shareholders' Funds</b>		<b>219,044</b>	<b>161,507</b>
Net asset value per Ordinary Share	18	200.04p	147.49p
Net asset value per ZDP Share	18	131.30p	123.01p

The financial statements on pages 38 to 54 were authorised for issue by the Board of Directors on 28 July 2014 and were signed on its behalf by:



Jonathan Cartwright, *Chairman*

The accompanying notes form part of these financial statements

## Statement of Changes in Equity

Year ended 30 June 2014

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>At 1 July 2013</b>		1,095	67,345	43,480	40,588	8,999	161,507
<b>Total Comprehensive Income:</b>							
Profit for the year		-	-	-	55,970	10,163	66,133
<b>Transactions with owners, recorded directly to equity:</b>							
Dividends paid	11	-	-	-	-	(8,596)	(8,596)
<b>At 30 June 2014</b>		1,095	67,345	43,480	96,558	10,566	219,044

Year ended 30 June 2013

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>At 1 July 2012</b>		1,095	67,345	43,480	(4,730)	6,576	113,766
<b>Total Comprehensive Income</b>							
Profit for the year		-	-	-	45,318	9,507	54,825
<b>Transactions with owners, recorded directly to equity</b>							
Dividends paid	11	-	-	-	-	(7,084)	(7,084)
<b>At 30 June 2013</b>		1,095	67,345	43,480	40,588	8,999	161,507

The accompanying notes form part of these financial statements

# Cash Flow Statement

Year ended 30 June 2014

	Notes	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Cash flows from operating activities</b>			
Profit before finance costs and taxation		72,212	60,516
Adjustments for			
Gains on investments held at fair value through profit or loss	13	(64,568)	(53,065)
Scrp dividend received	3	–	(44)
Transaction costs for acquiring or disposing of investments	8	681	716
Decrease/(increase) in receivables	14	351	(577)
(Decrease)/increase in payables	15	(2)	22
Purchases of investments including transactions costs		(78,480)	(71,166)
Sales of investments after transaction costs		71,568	74,041
<b>Net cash inflow from operating activities</b>		<b>1,762</b>	<b>10,443</b>
<b>Cash flows from financing activities</b>			
Interest paid	9	(23)	(17)
Dividends paid on Ordinary Shares	11	(8,596)	(7,084)
<b>Net cash outflow from financing activities</b>		<b>(8,619)</b>	<b>(7,101)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,857)</b>	<b>3,342</b>
Cash and cash equivalents at the start of the year		7,068	3,726
<b>Cash and cash equivalents at the end of the year</b>		<b>211</b>	<b>7,068</b>

Cash and cash equivalents comprise cash at bank.

The accompanying notes form part of these financial statements

# Notes to the Financial Statements

Year ended 30 June 2014

## 1 General Information

The Company was incorporated on 15 March 2010 and started trading on 30 April 2010 and has a planned fixed life expiring on 30 June 2017. It is incorporated in England and Wales under the Companies Act 2006. These are financial statements drawn up for the year ended 30 June 2014.

## 2 Accounting Policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations of the IFRS Interpretations Committee ("IFRS IC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared in accordance with the Association of Investment Companies ("AIC") Statement of Recommended Practice ("SORP") for Investment Trusts issued in January 2009.

The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments at fair value through profit or loss.

The Company's presentation currency is pounds sterling. Pounds sterling is also the functional currency because it is the currency that is most relevant to the majority of the Company's Shareholders and creditors and the currency in which the majority of the Company's operating expenses are paid.

### Standards, amendments and interpretations becoming effective in the year ended 30 June 2014:

- IAS 1, 'Presentation of Financial Statements' Amendments to revise the way other comprehensive income is presented
- IFRS 13, 'Fair Value Measure'

### Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted early by the Company:

- IFRS 9, 'Financial Instruments' (effective for financial periods beginning on or after 1 January 2015) replaces IAS39 and simplifies accounting for financial assets, replacing the current multiple measurement categories with a single principle-based approach to classification. The standard requires that all financial assets are to be measured at either amortised cost or fair value. The Company will apply IFRS 9 from 1 July 2015, subject to endorsement by the EU.

### (b) Presentation of the Statement of Comprehensive Income

To reflect better the activities of an investment trust Company and in accordance with the guidance issued by the AIC, supplementary information that analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

In accordance with the Company's Articles of Association, net capital returns may not be distributed by way of a dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

### (c) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Listed investments are valued at their fair value, which is represented by the market bid price at the Balance Sheet date, without deduction of estimated future selling costs. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value.

As investments have been categorised as "financial assets at fair value through profit or loss", gains and losses arising from changes in fair value are included in the Statement of Comprehensive Income as "Gains/(losses) on investments held at fair value through profit and loss". Acquisitions and disposals of investments are accounted for on a trade date basis.

# Notes to the Financial Statements

## 2 Accounting policies (continued)

All investments, classified as fair value through profit or loss, are further categorised into the following fair value hierarchy

Level 1 – Unadjusted prices quoted in active markets for identical assets and liabilities,

Level 2 – Having inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – Having inputs for the asset or liability that are not based on observable data

### (d) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost. Receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

### (e) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash

### (f) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Accordingly Ordinary Shares are classified as equity and ZDP Shares are classified as financial liabilities

### (g) Payables

Payables are initially recognised at fair value and subsequently measured at amortised cost. Payables are not interest-bearing and are stated at their nominal value

### (h) Reserves

- (i) **Share Premium** – Represents the premium paid on the issue of Ordinary Shares on 10 August 2011
- (ii) **Special reserve** – The special reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation would be accounted for in this reserve. This reserve was created in July 2010 subsequent to the cancellation of the value of the share premium reserve at the time.
- (iii) **Capital reserve** – Accounted for within the capital reserve are gains and losses on the sale of investments, gains on the return of capital by investee companies paying special dividends, expenses charged in accordance with the policies set out below, and increases and decreases in the valuation of investments held at the reporting date. As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10. "Distributable Profits", changes in fair value of investments that are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash
- (iv) **Revenue reserve** – the net profit/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve. Dividends distributed to Shareholders are accounted for in this reserve

### (i) Income

Dividends receivable on listed equity shares are taken to the revenue return column of the Statement of Comprehensive Income on the ex-dividend date except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Other income is accounted for on an accruals basis.

### (j) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except for transaction costs and expenses incurred in connection with the maintenance or enhancement of the Company's investment portfolio, which are charged to the capital reserve. Taking into account the Board's expectation of the long-term split of returns in the form of capital and income, investment management fees and finance costs in the form of bank interest are charged 70% to capital and 30% to revenue

# Notes to the Financial Statements

## 2 Accounting policies (continued)

### (k) Finance costs

The ZDP Shares are designed to provide a pre-determined capital growth from their original issue price of 100p on 30 April 2010 to a final capital entitlement of 159.7p on 30 June 2017, on which date the Company is planned to be wound up. The initial capital of 100p at 30 April 2010 will increase at a compound interest rate of 6.75% per annum. No dividends are payable on the ZDP Shares. The provision for the capital growth entitlement of the ZDP Shares is included as a finance cost and charged 100% to capital within the Statement of Comprehensive Income.

Finance costs incurred with the overdraft facility are accounted for on an accruals basis.

### (l) Taxation

Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other financial periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the Balance Sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts that have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to Equity, in which case the deferred tax is also dealt with in Equity.

### (m) Dividends

Dividend distribution to equity Shareholders is recognised as a liability in the financial statements in the period when the Company's obligation to make payment is established.

### (n) Share issue costs

Costs incurred directly in relation to the offers for subscription and placings of Ordinary Shares together with additional share listing costs have been deducted from equity.

### (o) Critical Accounting Estimates and Judgements

The facts and circumstances of all dividend entitlements are considered to determine whether such distributions are accounted for as revenue or capital. Determining whether a dividend is a *return on capital* (accounted for as revenue) or a *return of capital* (accounted for as capital) requires judgement to be applied. In the event a security held within the portfolio is suspended then judgement is applied in the valuation of that security.

## Notes to the Financial Statements

### 3 Income

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Income from investments</b>		
UK dividend income	10,761	9,968
Other Investment Income	481	323
Scrip dividend income	–	44
	<b>11,242</b>	<b>10,335</b>
<b>Other Income</b>		
Deposit interest	7	18
<b>Total income</b>	<b>11,249</b>	<b>10,353</b>
<b>Total income comprises:</b>		
Dividends	11,242	10,335
Deposit interest	7	18
<b>Total income</b>	<b>11,249</b>	<b>10,353</b>

### 4 Operating Segments

The Board has considered the requirements of IFRS 8 “Operating Segments” and is of the view that the Company is engaged in a single segment of business, investing in securities listed in the UK, and that therefore the Company has only a single operating segment. In respect of the investment portfolio the chief operating decision makers are the Managers, within guidelines set by and oversight from the Board. An important measure of performance used by the Managers and the Board to assess the Company’s investment performance is the total assets total return.

### 5 Investment Management Fee

The Company’s investment managers are Aberforth Partners LLP. The investment management contract between the Company and Aberforth Partners LLP may be terminated by either party at any time by giving six months’ notice of termination. Aberforth Partners LLP receive an annualised management fee equal to

- 1% of the Company’s Net Assets attributable to Ordinary Shareholders, plus
- 5% of the total income (excluding any tax credit), plus
- Base fee of £68,000

The base fee is adjusted annually in line with the Retail Prices Index. The management fee is calculated on a quarterly basis, paid in advance, and charged 70% to Capital and 30% to Revenue.

## Notes to the Financial Statements

### 6 Other operating expenses

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Directors' fees	120	117
Auditors' fees – Audit services (recurring)	24	24
– Taxation services	5	13
Registrars' fees	20	17
AIC fees	21	13
Custodian fees	16	12
Legal fees	10	1
Printing	10	12
Other general administrative expenses	62	55
	<b>288</b>	<b>264</b>

The Other operating expenses set out in the table above were charged to revenue

Auditors' fees for taxation services relate to tax compliance services

The Company had no employees in either period above

### 7 Directors' fees

The emolument of the Chairman, the highest paid Director, was at the rate of £27,850 per annum. Other Directors' emoluments amounted to £22,280 each per annum, with the Chairman of the Audit Committee receiving an additional £3,340 per annum. Full details are provided in the Directors' Remuneration Report on page 31.

### 8 Transaction costs

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss are analysed below.

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Analysis of purchases</b>		
Purchase consideration before expenses	73,192	74,902
Broker commissions	177	194
Taxes	320	327
<b>Total purchase costs</b>	<b>73,689</b>	<b>75,423</b>
<b>Analysis of sales</b>		
Sales consideration before expenses	71,975	73,238
Broker commissions	(184)	(195)
<b>Total sales proceeds</b>	<b>71,791</b>	<b>73,043</b>
<b>Total transaction costs</b>	<b>681</b>	<b>716</b>



# Notes to the Financial Statements

## 9 Finance Costs

	Year ended 30 June 2014			Year ended 30 June 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Appropriation to ZDP Shares	–	6,056	6,056	–	5,674	5,674
Overdraft facility – fee and interest	7	16	23	5	12	17
	<b>7</b>	<b>6,072</b>	<b>6,079</b>	<b>5</b>	<b>5,686</b>	<b>5,691</b>

The Company has a £2 million overdraft facility with The Royal Bank of Scotland plc, which is subject to renewal on 31 October 2014. The interest rate applying to overdrawn balances is 2.25% over the UK Base Rate and an arrangement fee of £20,000 was incurred in respect of the existing facility. During the year ended 30 June 2014 the highest utilisation of the overdraft facility was £1.5 million (2013: £0.9 million).

## 10 Taxation

	Year ended 30 June 2014			Year ended 30 June 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Analysis of tax charged on ordinary activities</b>						
Current tax charge for the year	–	–	–	–	–	–
Irrecoverable overseas tax suffered	–	–	–	–	–	–
<b>Total tax charge for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### Factors affecting current tax charge for the year

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the year.

The differences are explained below.

Profit before taxation	66,133	54,825
Notional corporation tax at 22.5% (2013: 23.75%)	14,880	13,021
Non-taxable UK dividends	(2,403)	(2,351)
Non-taxable capital returns	(14,528)	(12,603)
Non-taxable overseas dividend income	(108)	(77)
Expenses not deductible for tax purposes	153	170
Appropriation to ZDP Shares	1,363	1,348
Movement in unutilised excess expenses	643	492
<b>Total current tax charge for the year</b>	<b>–</b>	<b>–</b>

There are unutilised expenses of £7,625,000 (2013: £4,781,000), resulting in an unprovided deferred taxation asset of £1,601,000 (2013: £1,100,000) as at 30 June 2014 (at 21%). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

Owing to the Company's status as an Investment Trust Company and the intention to continue as such in the foreseeable future, the Company has not provided for tax on any capital gain arising on the revaluation or disposal of investments held.

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's effective tax rate for the year to 30 June 2014 was 22.5%.

# Notes to the Financial Statements

## 11 Dividends

Amounts recognised as dividends to Shareholders in the year:

	Year ended 30 June 2014			Year ended 30 June 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>In respect of the period ended 30 June 2012</b>						
Second interim dividend of 4 3p	-	-	-	4,708	-	4,708
<b>In respect of the year ended 30 June 2013</b>						
First interim dividend of 2 17p	-	-	-	2,376	-	2,376
Second interim dividend of 4 53p	4,960	-	4,960	-	-	-
Special dividend of 1 0p	1,095	-	1,095	-	-	-
<b>In respect of the year ended 30 June 2014</b>						
First interim dividend of 2 32p	2,541	-	2,541	-	-	-
	<b>8,596</b>	<b>-</b>	<b>8,596</b>	<b>7,084</b>	<b>-</b>	<b>7,084</b>

The second interim dividend for the year ended 30 June 2014 of 4 85p per Ordinary Share and the special dividend for the year ended 30 June 2014 of 1.20p per Ordinary Share, both payable on 28 August 2014, have not been included as a liability in these financial statements

Set out below are the total dividends paid and payable in respect of the year ended 30 June 2014, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered

	Year ended 30 June 2014 £'000
Revenue available for distribution by way of dividends for the year	<b>10,163</b>
Dividends in respect of the year ended 30 June 2014.	
- First interim dividend of 2 32p (paid 27 February 2014)	<b>2,541</b>
- Second interim dividend of 4 85p (payable 28 August 2014)	<b>5,311</b>
- Special dividend of 1 20p (payable 28 August 2014)	<b>1,314</b>
Undistributed revenue for the purposes of section 1158 of the Corporation Tax Act 2010	<b>997</b>

## 12 Earnings per Share

	Year ended 30 June 2014	Year ended 30 June 2013
Revenue profit for the year	<b>£10,163,000</b>	£9,507,000
Weighted average Ordinary Shares in issue during the year	<b>109,500,000</b>	109,500,000
<b>Revenue Earnings per Ordinary Share</b>	<b>9.28p</b>	8 68p
Capital profit/(loss) for the year	<b>£55,970,000</b>	£45,318,000
Weighted average Ordinary Shares in issue during the year	<b>109,500,000</b>	109,500,000
<b>Capital Earnings per Ordinary Share</b>	<b>51.11p</b>	41 39p
Appropriation to ZDP Shares for the year	<b>£6,056,000</b>	£5,674,000
Weighted average ZDP Shares in issue during the year	<b>73,000,000</b>	73,000,000
<b>Earnings per ZDP Share</b>	<b>8.30p</b>	7.77p

# Notes to the Financial Statements

## 13 Investments held at fair value through profit or loss

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<b>Investments held at fair value through profit or loss</b>		
Opening book cost	214,208	190,353
Opening fair value adjustment	32,966	2,092
<b>Opening valuation</b>	<b>247,174</b>	<b>192,445</b>
Movements in the year		
Purchases at cost	73,192	74,902
Sales – proceeds	(71,975)	(73,238)
Sales – realised gains on sales	29,685	22,191
Increase in fair value adjustment	34,883	30,874
<b>Closing valuation</b>	<b>312,959</b>	<b>247,174</b>
Closing book cost	245,110	214,208
Closing fair value adjustment	67,849	32,966
<b>Closing valuation</b>	<b>312,959</b>	<b>247,174</b>
Net gains on sales	29,685	22,191
Increase in fair value adjustment	34,883	30,874
<b>Gains on investments</b>	<b>64,568</b>	<b>53,065</b>

All investments are Level 1 assets under the definition of IFRS 13 and are traded on a recognised stock exchange

## 14 Receivables

	2014 £'000	2013 £'000
Amounts due from brokers	315	92
Investment income receivable	1,491	1,820
Other receivables and prepayments	20	42
	<b>1,826</b>	<b>1,954</b>

The carrying values of receivables approximate to their fair value

## 15 Payables

	2014 £'000	2013 £'000
Amounts due to brokers	–	4,791
Other payables	102	104
	<b>102</b>	<b>4,895</b>

The carrying values of payables approximate to their fair value.

## Notes to the Financial Statements

### 16 Zero Dividend Preference Shares

	2014 £'000	2013 £'000
Opening balance	89,794	84,120
Capital growth of ZDP Shares	6,056	5,674
<b>Closing balance</b>	<b>95,850</b>	<b>89,794</b>

### 17 Share Capital

	Shares	2014 £'000	Shares	2013 £'000
<b>Issued, Allotted and Fully paid</b>				
Ordinary Shares of 1p	109,500,000	1,095	109,500,000	1,095
<b>Total Ordinary Shares</b>	<b>109,500,000</b>	<b>1,095</b>	<b>109,500,000</b>	<b>1,095</b>
<b>Issued, Allotted and Fully paid</b>				
ZDP Shares of 1p	73,000,000	730	73,000,000	730
<b>Total ZDP Shares</b>	<b>73,000,000</b>	<b>730</b>	<b>73,000,000</b>	<b>730</b>

At 30 June 2014 there were 109,500,000 Ordinary Shares in Issue (30 June 2013: 109,500,000) and 73,000,000 ZDP Shares in issue (30 June 2013: 73,000,000)

### 18 Net asset value ("NAV") per Share

	2014	2013
Net assets attributable to Equity Shareholders	£219,044,000	£161,507,000
Ordinary Shares in issue at the end of the year	109,500,000	109,500,000
<b>Net asset value per Ordinary Share</b>	<b>200.04p</b>	<b>147.49p</b>
Calculated entitlement of ZDP Shares	£95,850,000	£89,794,000
ZDP Shares in issue at the end of the year	73,000,000	73,000,000
<b>Net asset value per ZDP Share</b>	<b>131.30p</b>	<b>123.01p</b>

The Company does not have any dilutive securities

# Notes to the Financial Statements

## 19 Capital and Reserves

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>At 30 June 2012</b>	<b>1,095</b>	<b>67,345</b>	<b>43,480</b>	<b>(4,730)</b>	<b>6,576</b>	<b>113,766</b>
Retained revenue profit for the year	-	-	-	-	9,507	9,507
Realised net gains on sales	-	-	-	22,191	-	22,191
Movement in fair value adjustment	-	-	-	30,874	-	30,874
Investment management fee charged to capital	-	-	-	(1,345)	-	(1,345)
Transaction costs	-	-	-	(716)	-	(716)
Interest charged to capital	-	-	-	(12)	-	(12)
Dividends paid	-	-	-	-	(7,084)	(7,084)
ZDP Appropriation	-	-	-	(5,674)	-	(5,674)
<b>At 30 June 2013</b>	<b>1,095</b>	<b>67,345</b>	<b>43,480</b>	<b>40,588</b>	<b>8,999</b>	<b>161,507</b>
Retained revenue profit for the year	-	-	-	-	10,163	10,163
Realised net gains on sales	-	-	-	29,685	-	29,685
Movement in fair value adjustment	-	-	-	34,883	-	34,883
Investment management fee charged to capital	-	-	-	(1,845)	-	(1,845)
Transaction costs	-	-	-	(681)	-	(681)
Interest charged to capital	-	-	-	(16)	-	(16)
Dividends paid	-	-	-	-	(8,596)	(8,596)
ZDP Appropriation	-	-	-	(6,056)	-	(6,056)
<b>At 30 June 2014</b>	<b>1,095</b>	<b>67,345</b>	<b>43,480</b>	<b>96,558</b>	<b>10,566</b>	<b>219,044</b>

Subsequent to the issue of Ordinary Shares on 30 April 2010 the Court confirmed, in July 2010, the cancellation of the entire amount standing to the credit of the Share Premium account and the creation of a Special Reserve, the balance of which may be treated as distributable profits for all purposes, excluding the payment of dividends. The Special Reserve is available to be used for any buy-back of Ordinary Shares and ZDP Shares.

The balance on the Capital Reserve of £96,558,000 (2013: £40,588,000) represents a profit of £67,849,000 (2013: £32,966,000) on investments held and a profit of £28,709,000 (2013: profit of £7,622,000) on investments sold after deducting expenses charged to the Capital Reserve.

## 20 Cash and cash equivalents

	2014 £'000	2013 £'000
Cash and cash equivalents	211	7,068

Cash held as at 30 June 2014 amounted to £10,000 (2013: £6,646,000) at The Royal Bank of Scotland plc and £201,000 (2013: £422,000) at The Northern Trust Company.

## 21 Financial Instruments

The Board has established an on-going process for identifying, evaluating and managing the key risks associated with financial instruments. As the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, credit, liquidity and interest rate risk.

The Company's financial instruments comprise its investment portfolio (pages 13 to 15), cash balances, ZDP Shares, receivables and payables that arise directly from its operations such as sales and purchases of securities awaiting settlement and accrued income. Note 2 sets out the accounting policies, including criteria for recognition of and the basis of measurement applied for significant financial instruments excluding cash at bank, which is carried at fair value. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

# Notes to the Financial Statements

## 21 Financial Instruments (continued)

### Market price risk

Market price risk is the risk that the market value of investment holdings will fluctuate as a result of factors other than interest rate or currency rate movement

The Company is normally a shareholder in between 50 and 100 small quoted companies. Day to day management of the Company's investment portfolio is carried out by its Managers, Aberforth Partners LLP. The Managers have a consistent and well-defined investment process based on fundamental analysis of the constituents of the Company's investment universe. The Board monitors the market price risk inherent in the investment portfolio by ensuring full and timely access to portfolio information provided by the Managers including details of the diversification of the portfolio. The Board meets regularly and at each meeting reviews investment performance and the investment portfolio. It also checks the rationale for the current investment positioning is consistent with the Company's investment objective and investment policy. No derivative or hedging instruments are currently utilised specifically to manage market price risk. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation had fallen by 20% at 30 June 2014, the impact on the profit or loss and therefore Shareholders' equity would have been negative £62.6 million (2013: negative £49.4 million). If the investment portfolio valuation had risen by 20% at 30 June 2014, the impact on the profit or loss and therefore Shareholders' equity would have been positive £62.6 million (2013: positive £49.4 million).

The financial instruments exposed to market price risk were:

	2014 £'000	2013 £'000
Investments held at fair value through profit or loss	312,959	247,174

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company invests in UK equities traded on the London Stock Exchange. Investment transactions are carried out with a number of FCA regulated brokers. Trades are typically undertaken on a delivery versus payment basis.

Cash at bank is held with reputable banks with acceptable external credit ratings. The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's Custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the Custodian may be delayed or limited. The Board monitors the Company's risk by reviewing Northern Trust's internal control report.

The maximum exposure to credit risk on the Company's financial instruments was:

	2014 £'000	2013 £'000
Amounts due from brokers	315	92
Investment income receivable	1,491	1,820
Other receivables	3	21
Cash and cash equivalents	211	7,068
<b>Total</b>	<b>2,020</b>	<b>9,001</b>

All of the above financial assets are current, their fair values are considered to be the same as the values shown, and the likelihood of a material credit default is considered to be low.

# Notes to the Financial Statements

## 21 Financial Instruments (continued)

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair values or from the inability to generate cash inflows as required.

The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet funding requirements, though short-term funding flexibility can typically be achieved through the use of bank debt facilities. The Company's current liabilities all have a payment date of less than three months. The ZDP Shares have a planned repayment date of 30 June 2017.

The remaining contractual maturities were

	2014 £'000	2013 £'000
Due within 1 month		
Amounts due to brokers	–	4,791
Accrued expenses	102	104
Due in 2 - 5 years		
ZDP Shares	<b>116,581</b>	<b>116,581</b>

### Interest rate risk

Interest rate risk is the risk that the interest receivable/payable and, indirectly, the market value of investment holdings may fluctuate because of changes in market interest rates. The Company's investment portfolio is not directly exposed to interest rate risk.

Cash balances over £25,000 held at The Royal Bank of Scotland plc yields interest at 0.1% (2013: 0.4%).

If the bank base rate had increased by 1 percentage point, the impact on the profit or loss and therefore Total Equity Shareholders' Funds would have been nil. If the bank base rate had decreased by 0.5 percentage points, the impact on the profit or loss and therefore Total Equity Shareholders' Funds would have been nil. There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the Balance Sheet date and are not representative of the financial period as a whole and assume all other variables remain constant.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to any significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

The financial instruments exposed to interest rate risk were:

	2014 £'000	2013 £'000
Cash and cash equivalents	<b>211</b>	<b>7,068</b>

### Fair value of financial assets and liabilities

Investments are carried in the Balance Sheet at their fair value, which is represented by their bid price valuation. All investments held as at 30 June 2014 are categorised as Level 1 using the IFRS 13 fair value hierarchy and are traded on the London Stock Exchange. The ZDP Shares and all other financial assets and financial liabilities are carried in the Balance Sheet at amortised cost.

## Notes to the Financial Statements

### **22 Capital management policies and procedures**

The capital of the Company is set out in note 17 on page 50 and details of the Company's reserves are shown in the Statement of Change in Equity on page 40. The investment objective, investment policy and investment strategy of the Company are set out on page 4.

To achieve the investment objective the Board has a responsibility to ensure the Company is able to continue as a going concern and details of the principal risks and how they are managed is set out on page 5. The Board monitors and reviews the structure of the Company's capital including the extent to which revenue in excess of that which is required to be distributed should be retained. The Companies Act 2006 and Corporation Tax Act 2010 impose capital requirements on the respective ability and obligation to pay dividends. The Board monitors, and has complied with, the externally imposed capital requirements. The Company's investment objective, capital management policies and monitoring processes are unchanged during the year.

### **23 Contingencies, guarantees and financial commitments**

The Company had no contingencies, guarantees or financial commitments as at 30 June 2014.

### **24 Related party transactions**

Under IFRS, the Directors have been identified as related parties and their fees and interests have been disclosed in the Directors' Remuneration Report on pages 31 and 32. During the year no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006. No other related parties have been identified.



# Shareholder Information

## Shareholder register enquiries

Capita Registrars Limited maintains the share register on behalf of the Company. All administrative enquiries relating to Shareholders, such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or an addition to a mailing list should be directed to Capita Registrars Limited on 0871 664 0300

## Electronic payment of dividends

Dividends can be received more quickly by instructing Capita Registrars, whose telephone number is given above, to pay them directly into a bank account, with tax vouchers mailed separately. This method is more efficient and avoids the risk of dividend cheques being either delayed or lost in the post.

## Dividend Reinvestment Plan (DRIP)

Capita Registrars, on behalf of the Company, operate a DRIP, which can be used to buy additional Ordinary Shares instead of receiving a cash dividend. For further information call 0871 664 0381 (calls cost 10p per minute plus network extras).

## Key Dates

Ordinary Shareholders will normally receive two dividends in respect of each financial year: the first interim dividend in February and the second interim dividend in August. The Interim Report for the 6 months to 31 December is normally published in January and the Annual Report for the year to 30 June in July. The Annual General Meeting is normally held in October.

## Sources of further information

The prices of the Ordinary Shares and ZDP Shares are quoted daily in the Financial Times in the Investment Companies section under the abbreviation of "AbfGd Inc". These prices, together with the Net Asset Values and other financial data, can be found on the TrustNet website at [www.trustnet.com](http://www.trustnet.com). Other websites containing useful information on the Company are [www.ft.com](http://www.ft.com), [www.theaic.co.uk](http://www.theaic.co.uk) and [www.morningstar.co.uk](http://www.morningstar.co.uk). Company performance and other information are available on the Aberforth Partners LLP website at [www.aberforth.co.uk](http://www.aberforth.co.uk).

## How to invest

The Company's Ordinary Shares and ZDP Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker or asking a professional advisor. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, PEPs, Savings Schemes or Pension Plans. Each of the Company's listed securities is eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account (ISA).

## Security Codes

	ISIN	SEDOL	Bloomberg/Reuters
Ordinary Shares of 1p	GB00B4TR3444	B4TR344	AGIT
ZDP Shares of 1p	GB00B4WLXD25	B4WLXD2	AGIZ

## Company Identification Numbers

Global Intermediary Identification Number (GIIN) AHY315 99999 SL.826  
Legal Entity Identifier (LEI) 2138008A77WGCP5LV740

## AIC

The Company is a member of The Association of Investment Companies, which produces a detailed Monthly Information Service on the majority of investment trusts. This is available at [www.theaic.co.uk](http://www.theaic.co.uk)

## Glossary

<b>Discount</b>	The amount by which the stockmarket price per Share is lower than the Net Asset Value per Share. The discount is normally expressed as a percentage of the NAV per Share.
<b>Gearing</b>	The percentage by which the total value of investments exceeds Total Equity Shareholders' Funds.
<b>Hurdle Rate</b>	The rate of capital growth per annum in the Company's investment portfolio to return the stated amount per Share at the planned winding-up date.
<b>Launch Date</b>	30 April 2010
<b>NAV Total Return (Ordinary Share)</b>	The return on Equity Shareholders' Funds assuming that net dividends paid to Ordinary Shareholders are reinvested at the time the Shares went ex-dividend.
<b>NAV Total Return (ZDP Share)</b>	The return on the entitlement value of a ZDP Share.
<b>NAV</b>	Net Asset Value
<b>Ongoing Charges</b>	The percentage per annum of investment management fees and other operating expenses to the average published Ordinary Shareholders' NAV over the period.
<b>Planned Winding-Up Date</b>	30 June 2017
<b>Portfolio Turnover</b>	The lesser of purchases and sales over a one year period divided by the average portfolio value for that year.
<b>Premium</b>	The amount by which the stockmarket price per Share exceeds the NAV per Share. The premium is normally expressed as a percentage of the NAV per Share.
<b>Projected Final Cumulative Cover</b>	The ratio of the total assets of the Company as at the calculation date, to the sum of the assets required to pay the final capital entitlement of 159.7p per ZDP Share on the planned winding-up date plus future estimated investment management fees charged to capital and estimated winding-up costs.
<b>Redemption Yield (Ordinary Share)</b>	The annually compounded rate of interest at which projected future income and capital cash flows (based on assumed future capital/dividend growth rates) produce an amount equal to the share price at the date of calculation.
<b>Redemption Yield (ZDP Share)</b>	The annually compounded rate of interest at which the total discounted value of the planned future payment of capital equates to its share price at the date of calculation.
<b>Retained Revenue per Share</b>	A cumulative figure calculated after accounting for dividends, including those not yet recognised in the financial statements.
<b>Terminal NAV (Ordinary Share)</b>	The projected NAV per Share at the planned winding-up date at the stated rate of capital growth in the Company's investment portfolio after taking into account the final capital entitlement of the ZDP Shares, future estimated costs charged to capital and planned winding-up costs.
<b>Total Assets Total Return</b>	The return of the combined funds of the Ordinary Shareholders and ZDP Shareholders assuming that net dividends paid to Ordinary Shareholders are reinvested at the time the Shares went ex-dividend.
<b>Total Returns</b>	Capital returns with dividends reinvested.

## Corporate Information

### Investment Managers and Secretaries

Aberforth Partners LLP  
14 Melville Street  
Edinburgh EH3 7NS  
Tel: 0131 220 0733  
enquiries@aberforth.co.uk  
www.aberforth.co.uk

### Registered Office and Company Number

c/o Dickson Minto W S  
Broadgate Tower  
Primrose Street  
London EC2A 2EW  
Registered in England and Wales  
Number 07189761

### Depository

National Westminster Bank plc  
Trustee & Depository Services  
Younger Building  
3 Redheughs Avenue  
Edinburgh EH12 9RH

### Custodian

The Northern Trust Company  
50 Bank Street  
Canary Wharf  
London E14 5NT

### Bankers

The Royal Bank of Scotland plc  
36 St Andrew Square  
Edinburgh EH2 2YB

### Registrars

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: 0871 664 0300 (Calls cost 10p per  
minute plus network extras)  
shareholder.services@capitaregistrars.com  
www.capitaregistrars.com

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
Atria One  
144 Morrison Street  
Edinburgh EH3 8EX

### Solicitors

Dickson Minto W S  
16 Charlotte Square  
Edinburgh EH2 4DF

### Sponsors

JP Morgan Securities Limited  
25 Bank Street  
Canary Wharf  
London E14 5JP

# Notice of the Annual General Meeting

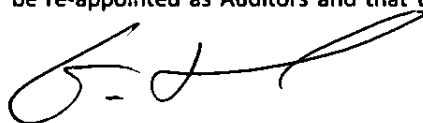
Notice is hereby given that the fourth Annual General Meeting of Aberforth Geared Income Trust plc will be held at 14 Melville Street, Edinburgh EH3 7NS on 16 October 2014 at 2.00 p.m. for the following purposes:

## Ordinary Business

To consider and, if thought fit, pass the following Ordinary Resolutions:

- 1 That the Report and Accounts for the year ended 30 June 2014 be adopted
- 2 That the Directors' Remuneration Policy be approved
- 3 That the Directors' Remuneration Report be approved
- 4 That Dominic Fisher be re-elected as a Director
- 5 That PricewaterhouseCoopers LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration

Aberforth Partners LLP, *Secretaries*  
14 Melville Street, Edinburgh EH3 7NS



28 July 2014

## Notes to the Notice of the Annual General Meeting

### 1. Attending the Annual General Meeting in person

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote on his/her behalf. Such a proxy need not also be a member of the Company

### 2. Appointment of Proxy

A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the Registrars' website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and follow the instructions on screen. You will require your investor code. CREST users should note they can lodge their proxy votes for the meeting through the CREST proxy voting system. For further instructions users should refer to the CREST User Manual. Any CREST personal members or other CREST sponsored members and other CREST members who have appointed a voting service provider(s) should contact their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID R055) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

# Notes to the Notice of the Annual General Meeting

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different Shares. You may not appoint more than one proxy to exercise rights attached to any one Share. To appoint more than one proxy, please contact the Registrars of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

### **3. Entitlement to attend and vote**

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.00 p.m. on 14 October 2014 (or, if the Annual General Meeting is adjourned, 6.00 p.m. on the day two days (excluding non-working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

### **4. Questions and Answers**

Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question that is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question within a reasonable period of days after the conclusion of the AGM.

### **5. Total Voting Rights**

As at 28 July 2014, the latest practicable date prior to publication of this document, the Company had 109,500,000 Ordinary Shares and 73,000,000 ZDP Shares in Issue. The holders of ZDP Shares will not normally be entitled to vote at general meetings of the Company. In respect of the resolutions the Ordinary Shareholders have a total of 109,500,000 voting rights.

### **6. Shareholder disclosure obligations**

Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules.

### **7. Information on the Company's website**

In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of Shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website at [www.aberforth.co.uk](http://www.aberforth.co.uk).

## Notes to the Notice of the Annual General Meeting

### 8. Nominated Persons

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between such person and the Shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered Shareholder as to the exercise of voting rights.

### 9. Audit concerns

The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the Auditors) setting out any matter relating to the audit of the Company's accounts, including the Auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold Shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing, state full names and addresses, and be sent to the registered address of the Company.

### 10. Documents available for inspection

The Directors' letters of appointment and a copy of the articles of association of the Company will be available for inspection prior to the Annual General Meeting and during the meeting.

### 11. Members' rights

Pursuant to section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out below, may, subject to certain conditions, require the Company to circulate to members notice of a resolution that may properly be moved and is intended to be moved at that meeting. The conditions are that (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (ii) the resolution must not be defamatory of any person, frivolous or vexatious, and (iii) the request (a) may be in hard copy form or in electronic form, (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it, and (d) must be received by the Company not later than six weeks before the meeting to which the requests relate.

Pursuant to section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) that may properly be included in the business (a matter of business). The conditions are that (i) the matter of business must not be defamatory of any person, frivolous or vexatious, and (ii) the request (a) may be in hard copy form or in electronic form, (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported, (c) must be accompanied by a statement setting out the grounds for the request, (d) must be authenticated by the person or persons making it, and (e) must be received by the Company not later than six weeks before the meeting to which the requests relate.

In order to be able to exercise the members' right to require (i) circulation of a resolution to be proposed at the meeting, or (ii) a matter of business to be dealt with at the meeting, the relevant request must be made by (a) a member or members having a right to vote at the meeting and holding at least 5 per cent of total voting rights of the Company, or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.