

# Acorn Income Fund Limited

Half-yearly Condensed Financial Report  
(unaudited) for the six  
months ended 30 June 2017



# Investment Objectives and Policy

## Investment Policy

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

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

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

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

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

## Investment Restrictions

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

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

## Derivatives

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

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# Performance Summary

for the six months ended 30 June 2017

	30/6/2017	31/12/2016	% change/ return
<b>Total Return Performance*</b>			
Total Return on Gross Assets***			12.60%
Numis Smaller Companies (Ex Investment Companies) Index	20,928.93	19,074.80	9.72%
FTSE All Share Index	6,777.29	6,424.25	5.50%
FTSE Small Cap (Ex Investment Companies) Index	7,402.58	6,802.34	8.82%

## Share Price and NAV Returns

### Ordinary Shares

Share Price	440.00p	359.00p	22.56%
NAV**	468.71p	407.23p	15.10%
IFRS NAV#	468.50p	407.20p	15.05%
Total return on Net Assets*			17.30%
Ordinary Share Price Total Return			25.20%
Discount (-) Premium (+) to NAV on Ordinary Shares	-6.13%	-11.84%	

### ZDP Shares

Share Price	144.75p	139.38p	3.85%
NAV**	140.16p	137.26p	2.11%
IFRS NAV	140.32p	137.28p	2.21%
Discount (-) Premium (+) to NAV on ZDP Shares	+3.27%	+1.54%	-
Cover on ZDP Shares***	2.78:1	-	-
Package Discount (-) Premium (+) to NAV Combined Ordinary and ZDP Shares	-3.43%	-7.67%	-

	6 months to 30/6/2017	6 months to 30/6/2016	% change/ return
<b>Dividends and Earnings</b>			
Revenue return per ordinary share	9.11p	10.50p	-13.24%
Dividends declared per ordinary share	9.00p	7.50p	20.00%

\* assumes dividends reinvested

\*\* NAV calculated in accordance with the Articles

\*\*\* non cumulative cover – source JP Morgan Cazenove

# NAV calculated in accordance with International Financial Reporting Standard

## adjusted for the issue and buyback of new Ordinary and ZDP Shares

# Company Summary

## Capital Structure

Zero Dividend Preference Shares (1p each)	21,365,221 (excluding treasury shares).	The ZDP Shares will have a final capital entitlement of 167.2 pence per ZDP Share on 28 February 2022 following the extension of the life of the existing shares from 31 January 2017, subject to there being sufficient capital in the Company. The ZDP Shares are not entitled to any dividends. ZDP shareholders rank ahead of the ordinary shareholders in regards to rights as to capital. The ZDP shareholders have the right to receive notice of all general meetings of the Company, but do not have the right to attend or vote unless the business of the meeting involves an alteration of the rights attached to the ZDP Shares, in which case the holders of ZDP Shares can attend and vote.
Ordinary Shares (1p each)	15,916,687 (excluding treasury shares).	The Ordinary Shares, excluding treasury shares, are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.
Treasury Shares	As at 30 June 2017 there were 1,275,972 Ordinary and 1,712,757 ZDP Shares held in treasury.	
Shareholder Funds (calculated in accordance with IFRS)	£74.56 million as at 30 June 2017.	
Market Capitalisation of the Ordinary Shares	£70.03 million as at 30 June 2017.	
The Board	The Board consists of three independent non-executive directors ("the Directors"), Helen Green (Chairman), Nigel Ward and David Warr.	
Investment Manager	Premier Asset Management (Guernsey) Limited ("PAMG Ltd"), is a subsidiary of Premier Asset Management Limited ("PAM Ltd"). PAM Ltd had approximately £5.84 billion of funds under management as at 30 June 2017. PAMG Ltd is licensed under the provisions of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, by the Guernsey Financial Services Commission to carry on controlled investment business.	

## Company Summary (continued)

Investment Advisers	<p>Premier Fund Managers Limited (“PFM Ltd”) – the Company’s Income Portfolio is managed by Paul Smith.</p> <p>Unicorn Asset Management Limited (“Unicorn Ltd”) – the Company’s Smaller Companies Portfolio is managed by Simon Moon and Fraser Mackerisie.</p>
Secretary/Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited.
Corporate Broker	Numis Securities Limited (“Numis”) provide all corporate broking services.
Management Fee	<p>0.7% per annum (Total Assets) charged 75% to capital and 25% to revenue. Minimum annual management fee £100,000.</p> <p>In addition, a performance fee is payable at the year-end if the target set out on page 23 is achieved.</p>
Registrar	Anson Registrars Limited.

### Financial Calendar

Company’s year end	31 December
Annual results announced	March/April
Company’s half year end	30 June
Annual General Meeting	15 August 2017
Half year results announced	August
Dividend payments	At the end of March, June, September and December
Company Website	<a href="https://www.premierfunds.co.uk/investors/investments/investment-trusts/acorn-income-fund">https://www.premierfunds.co.uk/investors/investments/investment-trusts/acorn-income-fund</a>

# Chairman's Statement and Interim Management Report

30 June 2017

Dear Shareholder

Despite the ongoing uncertainties surrounding the Brexit process and the unsatisfactory election outcome for the Conservative government, the UK stock market delivered positive returns over the first six months of 2017. While the larger companies in the FTSE 100 Index were seen as beneficiaries of weak sterling, smaller companies generally regarded as being more exposed to the domestic economy also performed well with the smaller company indices outperforming the FTSE 100 Index. Acorn itself outperformed the small cap sector and ordinary shareholders benefitted from a 25.2% total return in the six months to 30 June 2017.

## Investment Performance

Over the 6 months to 30 June 2017 the FTSE All-Share Index returned 5.5%. The FTSE Small Cap (ex investment companies) Total Return Index was up 8.82% and the broader Numis Small Company Index (Total Return ex Investment Companies) rose 9.72%. The Bank of America Merrill Lynch Sterling Non Gilts Index which the directors use as a reference point for investments in the fixed income investments in the Income Portfolio rose 2.3%.

Acorn's gross asset performance showed a total return of 12.6%. With rising gross assets Acorn's gearing worked favourably for ordinary shareholders. Net asset value total return was 17.3%. A narrowing of the discount to NAV at which the ordinary shares traded provided a further uplift in return for ordinary shareholders. The ordinary share price total return over the half year was 25.2%.

The Zero Dividend Preference shares appreciated in value by 3.85% over the six months.

## Asset Allocation

At the start of the period the split between the Smaller Companies Portfolio and the Income Portfolio was 80% to the Smaller Companies Portfolio and 20% to Income Portfolio. This position was taken in July 2016. No change in this allocation

has been made although relative performance of the Smaller Companies Portfolio against the Income Portfolio has meant that the actual split at the half year end was 82% Smaller Companies Portfolio 18% Income Portfolio. The directors and the managers have been comfortable in allowing this position to run as despite some recent weakening in bond markets there is insufficient attraction in fixed interest markets to wish to increase this exposure. Ahead of the UK election in June the directors agreed to take a more defensive stance and this was achieved by increasing the cash position in the Smaller Companies Portfolio and by purchasing an out of the money put option on the FTSE 250 Index. The put option position was closed shortly after the election and before the half year end.

## Share issuance and buy backs – Discount management

The Company has power to issue shares at a premium to net asset value and to buy back into treasury or for cancellation at a discount. These transactions are executed in both classes of share in the correct ratio to maintain the capital structure. Issues are done at a premium to the package net asset value (the NAV of ordinary shares and ZDPs combined) and buy backs at a discount to the package net asset value, such that the transaction will always be cover enhancing for the ordinary shares.

No shares were issued or bought back during the period under review.

The ordinary share discount to NAV reduced from 11.84% at the start of the year to 6.13% at 30 June 2017.

## Earnings and Dividends

The first interim dividend of 4.5p was paid on 31 March 2017. This represented a 12.8% increase on the 4.0p quarterly dividend paid in December 2016. The increase was brought forward from June to March giving a 28.6% increase over the first interim dividend for 2016.

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

30 June 2017

The second interim dividend of 4.5p was paid on 30 June 2017 to shareholders on the register at 16 June 2017 giving a 20% increase in the dividend distribution for the first half. Earnings per share in the first six months were 9.11p and whilst this was a reduction in the level for the corresponding period in 2016 still exceeded the distribution of 9p. At 31 December 2016 the Company had revenue reserves in excess of the full year dividend distribution.

## Outlook

As we entered the second half the UK market quickly recovered from the brief setback in June which arose from concerns about the election outcome and the immediate reaction to the result. At the time of writing this statement both the FTSE 100 Index and more domestically focused Numis Smaller Companies (ex Investment Companies) Index had recovered to levels close to their previous highs at the start of June.

This confidence in markets has been despite the plentiful commentary on the uncertainties facing the UK economy as the government negotiates an exit from the EU and the potential impact that this could have on certain sectors and companies. There are also a number of global issues that might be expected to unsettle markets, whether it be terrorism, instability in the Middle East or US/North Korean brinkmanship. Nevertheless the earnings outlook for the companies in which Acorn invests remains robust and with any increase in interest rates likely to be modest and cautiously applied the directors consider that the potential return from our equity portfolio remains attractive. Our investment advisers are cautious on the outlook for bonds and for the income portfolio are finding opportunities in the investment company sector and with structured investments.

**Helen Green**

Chairman  
15 August 2017

# Responsibility Statement

for the period from 1 January 2017 to 30 June 2017

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board by:

**Helen Green**

Chairman

15 August 2017

# Investment Advisers' Reports

## The Smaller Companies Portfolio

In the six months from 31 December 2016 to 30 June 2017 the Smaller Companies Portfolio generated a total return +16.5%, outperforming the benchmark Index, the NSCI (ex IC), which produced a total return of +9.72%.

The portfolio enjoyed a relatively strong performance driven by positive moves across the board; with a large number of meaningful risers and very few fallers. The spring reporting season saw the vast majority of the portfolio's holdings post earnings at least in-line with market consensus and pleasingly share prices reacted accordingly. Companies experienced modest upward valuation re-ratings, compounding the effect of the earnings growth delivered, leading to strong share price performance during the first half of the year.

The portfolio managers were actively picking up oversold shares in the second half of 2016 following unwarranted and indiscriminate devaluing of some of the Fund's holdings in the immediate aftermath of the EU referendum. It was particularly pleasing to see meaningful contributions from a number of the longer term holdings, many of which suffered significantly in share price terms in the middle of last year despite continuing to deliver strong operational performance.

The closing chapter of the period was defined by political events: In March the UK Prime Minister, Theresa May, formally triggered Article 50, effectively starting the two-year time limit during which a trade deal with the EU must be struck. Just a few weeks later she called a snap general election seeking to capitalise on the Conservative's significant lead in the polls, establish a significant parliamentary majority and form a strong mandate with which to negotiate the terms of Britain's exit from the EU. In reality the gamble failed: the Conservatives saw their lead in the polls drop significantly in the run up to polling day, ultimately lost their slim majority, and were subsequently forced to form a minority government. This environment of increased political uncertainty has weighed slightly on shares following the significant run they had enjoyed over the period as a whole,

subsequently they ended the period in a rather muted fashion.

The Smaller Companies Portfolio initiated positions in six new holdings and exited six existing holdings in full during the period under review. Two of the new investments made were through initial public offerings (IPO). Of the six disposals, three were the result of M&A activity which has been an increasing feature within the Portfolio and the wider market since the depreciation of Sterling in the summer of 2016. The new positions initiated during the period were: Vesuvius, a specialist manufacturer of refractory and flow control equipment used in the production of steel; 4imprint, a manufacturer of promotional materials for corporate clients; Polar Capital Holdings, the fund management company; and Berendsen, a textile services company (which was subsequently bid for and sold by the Managers in the period). The two IPOs were AlphaFX, a currency hedging services provider for small and medium sized companies; and Xafinity, a pensions services provider. It is pleasing to note that both of the IPO companies have made a meaningful positive contribution since their listing date.

The strongest contributors to performance were Conviviality and Warpaint which both contributed 141bps to performance, ending the period 45% and 75% higher respectively. Conviviality, the leading distributor of alcoholic drinks to the on and off-trade, released interim results during the period that reported trading was positive and the integration of acquisitions remains ahead of plan. Warpaint, the cosmetics producer that listed in the second half of 2016, continued to enjoy its start to quoted life as it reported strong maiden results and subsequently confirmed that trading continued to be in line. Other significant contributors were Acal (118bps) and Somero (103bps). The most significant negative contributor was Van Elle which took 46bps from performance, the ground engineering specialist issued disappointing trading updates, which reported that project delays had impacted margins significantly.

A key consideration of our investment process is the sustainability of a company's dividend payments.

## Investment Advisers' Reports (continued)

Many of the underlying investee companies have long established track records of increasing dividend payments, which, in turn, are comfortably covered by earnings. During periods of uncertainty, the reliability of these dividend flows is of even greater value. It was also pleasing to see a number of investee companies return excess cash to shareholders in the form of special dividends during the period, highlighting the strong cash generative characteristics that we look for in companies.

Market volatility has provided opportunities to buy high quality stocks on attractive valuations and as active fund managers we will be looking to take further advantage of volatility as a result of heightened political uncertainty going forward.

### **Fraser Mackeris and Simon Moon**

Unicorn Asset Management Limited

#### **The Income Portfolio**

After the last few months of complacency, bond investors again found themselves awoken to the dangers of rich bond valuations amidst erratic central bank communication. The ECB has made tentative signals that it is preparing to pare back some of its ultra loose stimulus – something that has long been expected but not dissuaded investors. Mario Draghi has trodden cautiously in his previous statements to the markets which have tried to balance the improvements in the Eurozone economies with the need for the bank to remain accommodative. However, whilst previous emphasis has been on protecting against deflation risks, the latest ECB statements indicate that the more balanced environment might give them confidence to gradually dial back the scale of stimulus. It is of course a delicate balancing act and one which we have seen the Fed make the same nervous, tentative steps before.

The Bank of England has also been forced to make more balanced statements about monetary policy, given the large uncertainty overhanging the UK economy and the very low levels of Gilt yields. A bout of import driven price increases coupled with falling yields have seen Gilt yields failing to

compensate investors for inflation across the entire range of available maturities and this makes them extremely unconvincing. Given that ultra low yields has not been consistent with even a modest tightening of monetary policy over the next few years, volatility is likely as a change in path is repriced – something which can escalate due to the losses that can be suffered on what have been bought as 'safe haven' assets.

Meanwhile credit spreads continue to be well supported by the excess cash being put to work although current valuations mean that the reach for yield requires the adoption of a lot more risk and does not appear attractive on an absolute risk-return basis. In what we perceive to be an environment of rich valuations, avoiding mistakes is as important as finding new opportunities. Sectors such as UK retail face both structural and cyclical challenges which we do not feel have been fully reflected in valuations and so we heavily reduced exposure ahead of a more discerning market.

In light of these perceived risks, the portfolio continues to be positioned with low duration exposure whilst endeavouring to extract returns from relative value opportunities within bonds and alternative fixed income investments. This has included exploiting discount opportunities in the JP Morgan Global Convertibles Income Fund, where the introduction of a new discount control mechanism has benefitted the unit price, as well as identifying credits such as Burford and Phoenix Life where spreads have rallied materially following fundamental improvements in these companies, enabling these bonds to generate positive returns away from the impact of duration. With this more absolute return approach to risk and return, the portfolio has managed to achieve a positive first half return, comparable with corporate bond indices and materially ahead of UK Gilt comparators, whilst taking much lower duration risk, therefore delivering a much smoother return profile.

### **Paul Smith**

Premier Fund Managers Limited

# Schedule of Principal Investments

as at 30 June 2017

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2017
<b>Smaller Companies Portfolio</b>				
1	Acal plc	3,212,145	3.90	3.04
2	Clipper Logistics plc	3,111,638	3.78	2.95
3	Conviviality Retail plc	2,883,450	3.50	2.73
4	Somero Enterprises Inc	2,784,000	3.38	2.64
5	Warpaint London plc	2,350,000	2.85	2.23
6	FDM Group Holdings plc	2,274,000	2.76	2.15
7	Macfarlane Group	2,261,000	2.75	2.14
8	Secure Trust Bank plc	2,073,750	2.52	1.96
9	Midwich Grp.	2,053,800	2.49	1.95
10	Alumasc Group plc	2,035,000	2.47	1.93
11	Park Group plc	2,006,250	2.44	1.90
12	Safestyle UK plc	2,005,250	2.44	1.90
13	Wincanton plc	1,992,000	2.42	1.89
14	Mucklow A&J Group plc	1,850,000	2.25	1.75
15	Numis Corporation plc	1,835,625	2.23	1.74
16	Primary Health Properties plc	1,820,000	2.21	1.72
17	Tyman plc	1,772,500	2.15	1.68
18	Hill & Smith Holdings plc	1,725,000	2.10	1.63
19	Card Factory plc	1,704,875	2.07	1.62
20	Telecom Plus plc	1,671,850	2.03	1.58
		<b>43,422,133</b>	<b>52.74</b>	<b>41.13</b>
<b>Income Portfolio</b>				
1	Credit Agricole 0.31% CD 18/09/2017	1,000,022	5.69	0.95
2	Real Estate Credit Pref Shs NPV 8% 09/2017	934,250	5.32	0.89
3	DW Catalyst Fund Limited	656,316	3.74	0.62
4	JPMorgan Global Convertibles Income Fund Limited	588,000	3.35	0.56
5	Icg-Longbow Senior Secured Uk Property Debt Investments Limited	525,000	2.99	0.50
6	United Kingdom 2.50% IL Treasury 2020	517,258	2.95	0.49
7	HSBC 6% 29/03/2040	396,682	2.26	0.38
8	Burford Capital plc	382,960	2.18	0.36
9	F&C Global Smaller Companies CULS 3.5%	364,000	2.07	0.34
10	Itv 2.125% 2022	363,880	2.07	0.34
11	Glencore Finance Dubai 2.625% 2018	363,079	2.07	0.34
12	Tesco Personal Finance 1.00% 2019 IL	349,575	1.99	0.33
13	EDF 6.125% 02/06/2034	339,373	1.93	0.32
14	Natixis structured investment 08/09/2017	331,548	1.89	0.31
15	Investec structured investment 08/09/2020	307,359	1.75	0.30
16	St Modwen Properties 2.875% Convertible 06/03/2019	297,150	1.69	0.29
17	Heathrow 7.075% 04/08/2028	287,408	1.64	0.27
18	Aviva 5.9021% Perp – 2020	271,513	1.55	0.26
19	Spirit Issuer 5.472% 28/12/2034	261,414	1.49	0.25
20	Northumbrian Water Finance plc 6.875% 2023	254,820	1.44	0.24
	<b>TOTAL</b>	<b>8,791,607</b>	<b>50.06</b>	<b>8.34</b>

# Schedule of Principal Investments (continued)

as at 31 December 2016

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2016
<b>Smaller Companies Portfolio</b>				
1	Clipper Logistics plc	2,850,000	3.96	3.01
2	Conviviality Retail plc	2,481,125	3.45	2.62
3	Safestyle UK plc	2,322,000	3.22	2.46
4	Macfarlane Group	2,280,000	3.17	2.41
5	Secure Trust Bank plc	2,258,550	3.14	2.39
6	Acal plc	2,205,000	3.06	2.33
7	Somero Enterprises inc	2,200,000	3.06	2.33
8	Lavendon Group plc	2,190,358	3.04	2.32
9	Castings plc	1,845,850	2.56	1.95
10	Park Group plc	1,825,000	2.53	1.93
11	Numis Corporation plc	1,824,375	2.53	1.93
12	Primary Health Properties plc	1,768,000	2.46	1.87
13	Wincanton plc	1,722,000	2.39	1.82
14	James Halstead plc	1,695,750	2.36	1.79
15	FDM Group Holdings plc	1,695,000	2.35	1.79
16	Gateley Holdings plc	1,677,000	2.33	1.77
17	Alumasc Group plc	1,672,000	2.32	1.77
18	Mucklow A&J Group plc	1,624,845	2.26	1.72
19	Epwin Group plc	1,604,000	2.23	1.70
20	Quarto Group inc	1,535,046	2.13	1.62
		<b>39,275,899</b>	<b>54.55</b>	<b>41.53</b>
<b>Income Portfolio</b>				
1	Real Estate Credit Pref Shs NPV 8% 09/2017	943,500	6.22	1.00
2	DW Catalyst Fund Limited	632,838	4.17	0.67
3	United Kingdom 2.50% IL Treasury 2020	519,624	3.43	0.55
4	British Telecoms 5.75% 2028	401,005	2.64	0.42
5	HSBC 6% 29/03/2040	360,312	2.37	0.38
6	JPMorgan Global Convertibles Income Fund Limited	360,000	2.37	0.38
7	Glencore Finance Dubai 2.625% 2018	354,556	2.34	0.37
8	Itv 2.125% 2022	352,043	2.32	0.37
9	F&C Global Smaller Companies CULS 3.5%	343,700	2.27	0.36
10	Natixs structured investment 08/09/2017	340,831	2.25	0.36
11	Tesco Personal Finance 1.00% 2019 IL	339,135	2.24	0.36
12	EDF 6.125% 02/06/2034	334,180	2.20	0.35
13	UBS 7.25% 22/02/2022	325,632	2.15	0.34
14	Investec structured investment 08/09/2020	302,094	1.99	0.32
15	Heathrow 7.075% 04/08/2028	286,202	1.89	0.31
16	St Modwen Properties 2.875% Convertible 06/03/2019	283,170	1.87	0.31
17	Credit Agricole SA 8.125% 2033 – 18	261,178	1.72	0.28
18	Northumbrian Water Finance plc 6.875% 2023	259,306	1.71	0.27
19	Spirit Issuer 5.472% 28/12/2034	258,911	1.71	0.27
20	Aviva 5.9021% Perp – 2020	255,313	1.67	0.27
	<b>TOTAL</b>	<b>7,513,530</b>	<b>49.53</b>	<b>7.94</b>

# Condensed Statement of Comprehensive Income (unaudited)

for the period ended 30 June 2017

	Notes	Revenue GBP	Capital GBP	Period ended 30 June 2017 Total GBP	Period ended 30 June 2016 Total GBP
Net gains/(losses) on financial assets designated as at fair value through profit or loss	8	–	11,293,640	11,293,640	(9,012,028)
Gains/(Losses) on derivative financial instruments		–	57,138	57,138	(300,753)
Investment income	3	1,789,702	–	1,789,702	2,091,979
<b>Total income and gains/(losses)</b>		<b>1,789,702</b>	<b>11,350,778</b>	<b>13,140,480</b>	<b>(7,220,802)</b>
Expenses	4	(339,692)	(840,465)	(1,180,157)	(538,877)
<b>Return/(loss) on ordinary activities before finance costs and taxation</b>		<b>1,450,010</b>	<b>10,510,313</b>	<b>11,960,323</b>	<b>(7,759,679)</b>
Interest payable and similar charges	5	–	(771,881)	(771,881)	(844,087)
<b>Return/(loss) on ordinary activities before taxation</b>		<b>1,450,010</b>	<b>9,738,432</b>	<b>11,188,442</b>	<b>(8,603,766)</b>
Taxation on ordinary activities		–	–	–	–
Other comprehensive income		–	–	–	–
<b>Total comprehensive income/(loss) for the year attributable to ordinary shareholders</b>		<b>1,450,010</b>	<b>9,738,432</b>	<b>11,188,442</b>	<b>(8,603,766)</b>
		Pence	Pence	Pence	Pence
<b>Return/(loss) per Ordinary share</b>	7	9.11	61.19	70.30	(54.09)
<b>Dividend per Ordinary Share</b>	6	9.00	–	9.00	7.50
<b>Return per ZDP Share</b>	7	–	3.63	3.63	3.95

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

In arriving at the results for the financial period, all amounts above relate to continuing operations.

No operations were acquired or discontinued in the period.

The notes on pages 18 to 30 form an integral part of these financial statements.

# Condensed Statement of Financial Position (unaudited)

as at 30 June 2017

	Notes	30 June 2017 GBP (Unaudited)	31 Dec 2016 GBP (Audited)
<b>NON-CURRENT ASSETS</b>			
Financial assets designated as at fair value through profit or loss	8	99,888,648	87,172,262
<b>CURRENT ASSETS</b>			
Receivables	9	405,359	2,242,217
Cash and cash equivalents		5,268,549	5,071,818
Derivative financial instruments		–	91,470
		5,673,908	7,405,505
<b>TOTAL ASSETS</b>		<b>105,562,556</b>	<b>94,577,767</b>
<b>CURRENT LIABILITIES</b>			
Derivative financial instruments		19,955	–
Payables – due within one year	10	993,922	469,872
ZDP Shares	11	–	29,319,945
		1,013,877	29,789,817
<b>NON-CURRENT LIABILITIES</b>			
ZDP Shares	11	29,979,295	–
<b>TOTAL LIABILITIES</b>		<b>30,993,172</b>	<b>29,789,817</b>
<b>NET ASSETS</b>		<b>74,569,384</b>	<b>64,787,950</b>
<b>EQUITY</b>			
Share capital	12	197,106	171,867
Share premium		27,436,277	27,436,022
Treasury reserve	13	(4,568,238)	(4,568,238)
Revenue reserve		2,529,338	2,511,830
Special reserve		10,000,000	10,000,000
Capital reserve		38,974,901	29,236,469
<b>TOTAL EQUITY</b>		<b>74,569,384</b>	<b>64,787,950</b>
		Pence	Pence
<b>Net asset value per Ordinary Share (per Articles)</b>		468.71	407.23
<b>Net asset value per Ordinary Share (per IFRS)</b>		468.50	407.20
<b>Net asset value per ZDP Share (per Articles)</b>		140.16	137.26
<b>Net asset value per ZDP Share (per IFRS)</b>		140.32	137.28

The financial statements on pages 13 to 30 were approved by the Board of Directors and authorised for issue on 15 August 2017 and signed on its behalf by:

**Helen Green**  
Chairman

**David Warr**  
Director

The notes on pages 18 to 30 form an integral part of these financial statements.

# Condensed Statement of Cash Flows (unaudited)

for the period ended 30 June 2017

	Notes	Period ended 30 June 2017 GBP	Period ended 30 June 2016 GBP
<b>Operating activities</b>			
Return on ordinary activities before taxation		11,188,442	(8,603,766)
Net (gains)/losses on financial assets designated as at fair value through profit or loss	8	(11,293,640)	9,012,028
Investment income	3	(1,789,702)	(2,091,979)
Interest expense	5	771,881	844,087
Decrease in derivative financial assets		91,470	8,746
Increase in derivative financial liabilities		19,955	42,603
Increase in payables and appropriations excluding amount due to brokers	10	463,859	6,662
(Increase)/decrease in receivables excluding accrued investment income and due from brokers	9	(7,540)	34
<b>Net cash flow used in operating activities before investment income</b>		(555,275)	(781,585)
Investment income received		1,797,522	1,801,443
<b>Net cash flow from operating activities before taxation</b>		1,242,247	1,019,858
Tax paid		–	–
<b>Net cash flow from operating activities</b>		1,242,247	1,019,858
<b>Investing activities</b>			
Purchase of financial assets		(19,645,029)	(11,728,471)
Sale of financial assets		20,329,051	11,519,594
<b>Net cash flow from/(used in) investing activities</b>		684,022	(208,877)
<b>Financing activities</b>			
Equity dividends paid	6	(1,432,502)	(1,193,301)
Treasury shares sold	13	–	496,114
Issue of Ordinary Shares		25,494	–
Buyback of ZDP Shares		–	221,063
ZDP shares redeemed	11	(2,531,141)	–
ZDP Shares issued	11	2,579,090	–
Cost of issue of ZDP Shares		(370,479)	(1,105)
<b>Net cash flow used in financing activities</b>		(1,729,538)	(477,229)
<b>Increase in cash and cash equivalents</b>		196,731	333,752
Cash and cash equivalents at beginning of period		5,071,818	2,933,049
<b>Cash and cash equivalents at end of period</b>		5,268,549	3,266,801

The notes on pages 18 to 30 form an integral part of these financial statements.

# Condensed Statement of Changes in Equity (unaudited)

as at 30 June 2017

	Share Capital 30 June 2017 GBP	Share Premium 30 June 2017 GBP	Treasury Reserve 30 June 2017 GBP	Revenue Reserve 30 June 2017 GBP	Special Reserve 30 June 2017 GBP	Capital Reserve 30 June 2017 GBP	Total 30 June 2017 GBP
Balances as at 1 January 2017	171,867	27,436,022	(4,568,238)	2,511,830	10,000,000	29,236,469	64,787,950
Total comprehensive income for the period attributable to shareholders	-	-	-	1,450,010	-	9,738,432	11,188,442
Dividends	-	-	-	(1,432,502)	-	-	(1,432,502)
Issue of Ordinary Shares	25,239	255	-	-	-	-	25,494
Balances as at 30 June 2017	197,106	27,436,277	(4,568,238)	2,529,338	10,000,000	38,974,901	74,569,384

The notes on pages 18 to 30 form an integral part of the financial statements.

# Condensed Statement of Changes in Equity (unaudited) (continued)

as at 30 June 2016

	Share Capital 30 June 2016 GBP	Share Premium 30 June 2016 GBP	Treasury Reserve 30 June 2016 GBP	Revenue Reserve 30 June 2016 GBP	Special Reserve 30 June 2016 GBP	Capital Reserve 30 June 2016 GBP	Total 30 June 2016 GBP
Balances as at 1 January 2016	171,867	27,436,022	(5,064,352)	1,735,911	10,000,000	28,152,316	62,431,764
Total comprehensive loss for the period attributable to shareholders	-	-	-	1,670,927	-	(10,274,693)	(8,603,766)
Dividends	-	-	-	(1,193,301)	-	-	(1,193,301)
Treasury shares sold	-	-	496,114	-	-	-	496,114
Balances as at 30 June 2016	171,867	27,436,022	(4,568,238)	2,213,537	10,000,000	17,877,623	53,130,811

The notes on pages 18 to 30 form an integral part of the financial statements.

# Notes to the Condensed Financial Statements (unaudited)

for the period ended 30 June 2017

## 1 ACCOUNTING POLICIES

### (a) Basis of preparation

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

The Unaudited Condensed Interim Financial Statements do not include all the information and disclosures in the Annual Financial Statements and should be read in conjunction with the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2016.

The accounting policies and methods of computation followed in this Interim Unaudited Condensed set of Financial Statements are consistent with those of the latest Annual Audited Financial Statement for the year ended 31 December 2016 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

### (b) Presentation of information

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

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

## 2 OPERATING SEGMENTS

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

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

for the period ended 30 June 2017

## 2 OPERATING SEGMENTS (continued)

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

Segment	Investment objectives and principal investments products
Income Portfolio	To maximise income through investments in sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities.
Smaller Companies Portfolio	To maximise income and capital growth through investments in smaller capitalised UK companies.

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

Segmental information is measured on the same basis as that used in the preparation of the Company's financial statements.

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2017</b>				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	735,920	10,557,720	–	11,293,640
Gains on derivative financial instruments	57,138	–	–	57,138
Bank interest	–	–	1,399	1,399
Dividend income	80,034	1,525,770	–	1,605,804
Bond income	182,499	–	–	182,499
<b>Total income and gains</b>	<b>1,055,591</b>	<b>12,083,490</b>	<b>1,399</b>	<b>13,140,480</b>
Expenses	–	–	(1,180,157)	(1,180,157)
Interest payable and similar charges	–	–	(771,881)	(771,881)
<b>Total comprehensive income for the period attributable to shareholders</b>	<b>1,055,591</b>	<b>12,083,490</b>	<b>(1,950,639)</b>	<b>11,188,442</b>

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

for the period ended 30 June 2017

## 2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2017</b>				
Financial assets designated as at fair value through profit or loss	17,560,760	82,327,888	–	99,888,648
Receivables	168,044	237,315	–	405,359
Cash and cash equivalents	1,377,870	3,890,679	–	5,268,549
<b>Total assets</b>	<b>19,106,674</b>	<b>86,455,882</b>	<b>–</b>	<b>105,562,556</b>
Derivative financial instruments	19,955	–	–	19,955
Payables	–	–	993,922	993,922
<b>Total current liabilities</b>	<b>19,955</b>	<b>–</b>	<b>993,922</b>	<b>1,013,877</b>

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>30 June 2016</b>				
External revenues:				
Net gains/(losses) on financial assets designated as at fair value through profit or loss	18,888,869	(27,900,897)	–	(9,012,028)
Losses on derivative financial instruments	(300,753)	–	–	(300,753)
Bank interest	–	–	761	761
Dividend income	64,495	1,646,398	–	1,710,893
Bond income	380,325	–	–	380,325
<b>Total income and (losses)/gains</b>	<b>19,032,936</b>	<b>(26,254,499)</b>	<b>761</b>	<b>(7,220,802)</b>
Expenses	–	–	(538,877)	(538,877)
Interest payable and similar charges	–	–	(844,087)	(844,087)
<b>Total comprehensive income/(loss) for the period attributable to shareholders</b>	<b>19,032,936</b>	<b>(26,254,499)</b>	<b>(1,382,203)</b>	<b>(8,603,766)</b>

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

for the period ended 30 June 2017

## 2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
<b>31 December 2016</b>				
Financial assets designated as at fair value through profit or loss	15,171,128	72,001,134	–	87,172,262
Receivables	219,640	2,022,577	–	2,242,217
Derivative financial instruments	91,470	–	–	91,470
Cash and cash equivalents	2,406,640	2,665,178	–	5,071,818
<b>Total assets</b>	<b>17,888,878</b>	<b>76,688,889</b>	<b>–</b>	<b>94,577,767</b>
Payables	–	–	469,872	469,872
ZDP Shares	–	–	29,319,945	29,319,945
<b>Total current liabilities</b>	<b>–</b>	<b>–</b>	<b>29,789,817</b>	<b>29,789,817</b>

### Geographical information

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

	UK GBP	Guernsey GBP	Jersey GBP	Other Europe GBP	Rest of the world GBP	Total GBP
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### 30 June 2017

#### External revenues

<b>Total Revenue</b>	1,512,348	76,737	–	38,426	162,191	1,789,702
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	UK GBP	Guernsey GBP	Jersey GBP	Other Europe GBP	Rest of the world GBP	Total GBP
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### 30 June 2016

#### External revenues

<b>Total Revenue</b>	1,715,300	117,242	–	143,055	116,382	2,091,979
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The Company did not hold any non-current assets during the period other than financial instruments (December 2016: £ Nil).

### Major customers

The Company regards its shareholders as customers. The Company's only shareholder with a holding greater than 10% at the year end was HSBC Issuer Services Common Depository Nominee (UK) Limited (2016: The Company's only shareholder with a holding greater than 10% at the year end was HSBC Issuer Services Common Depository Nominee (UK) Limited).

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

for the period ended 30 June 2017

## 3 INVESTMENT INCOME

	Period ended 30 June 2017 GBP	Period ended 30 June 2016 GBP
Bank interest	1,399	761
Dividend income	1,605,804	1,710,893
Bond income	182,499	380,325
	1,789,702	2,091,979

For the period ended 30 June 2017, special dividends totalling £Nil (30 June 2016: £165,000) were reflected in the capital reserve.

## 4 EXPENSES

	Period ended 30 June 2017			Period ended 30 June 2016		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Manager's fee*	89,244	267,731	356,975	76,359	229,077	305,436
Administrator's fee***	46,102	–	46,102	46,597	–	46,597
Registrar's fee	5,895	–	5,895	8,582	–	8,582
Directors' fees	46,578	–	46,578	38,644	–	38,644
Custody fees	19,946	–	19,946	19,945	–	19,945
Audit fees	14,814	–	14,814	17,308	–	17,308
Directors' and Officers' insurance	3,897	–	3,897	3,565	–	3,565
Annual fees	17,811	–	17,811	12,595	–	12,595
Performance fee**	–	469,050	469,050	–	–	–
Commissions and charges paid	–	103,684	103,684	–	53,748	53,748
Legal and professional fees	8,691	–	8,691	8,848	–	8,848
Broker fees	19,001	–	19,001	19,192	–	19,192
Sundry costs	6,046	–	6,046	27,389	–	27,389
Loss on foreign exchange	61,667	–	61,667	(22,972)	–	(22,972)
	339,692	840,465	1,180,157	256,052	282,825	538,877

### Manager's fee

\*The Company has entered into a Management Agreement with Premier Asset Management (Guernsey) Limited, a wholly-owned, Guernsey incorporated subsidiary of Premier Asset Management Limited. The Investment Manager receives a management fee of 0.7% per annum of total assets (subject to a minimum of £100,000) calculated monthly and payable quarterly in arrears, out of which it pays fees to the Investment Advisers. The Investment Manager is also paid a shareholder communication and support fee, currently £3,100 for the twelve months from 1 May 2016 to 30 June 2017. Please refer to Note 1(h) in the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2016 for details on how expenses are charged to the capital reserve and revenue account. The Management Agreement may be terminated by either party on 12 months' written notice.

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

for the period ended 30 June 2017

## 4 EXPENSES (continued)

### Performance fee

\*\*The Investment Manager is also potentially entitled to a performance fee at the year end equal to 15% of any excess of the NAV per Ordinary Share (together with any dividends paid) over the higher of the first benchmark or the second benchmark. The first benchmark is the NAV per share immediately following the tender in January 2007 increasing at 10% per annum compound. The second benchmark is the highest NAV per Ordinary Share as of the last calculation day in any preceding financial period commencing after completion of the tender in January 2007 in respect of which a performance fee has been paid compounded at 10% per annum. A performance fee amounting to £469,050 was accrued for the period ended 30 June 2017 (2016: Nil).

### Administrator's fee

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

## 5 INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30 June 2017			Period ended 30 June 2016		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Appropriation in respect of ZDP shares	–	611,402	611,402	–	795,131	795,131
Amortisation of ZDP issue costs	–	–	–	–	48,956	48,956
ZDP issue costs	–	160,479	160,479	–	–	–
	–	771,881	771,881	–	844,087	844,087

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

for the period ended 30 June 2017

## 6 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	Period ended 30 June 2017	
	GBP	Pence per share
First interim payment	716,251	4.50
Second interim payment	716,251	4.50
	1,432,502	9.00

	Period ended 30 June 2016	
	GBP	Pence per share
First interim payment	556,873	3.50
Second interim payment	636,428	4.00
	1,193,301	7.50

## 7 EARNINGS PER SHARE

### Ordinary Shares

The total return per Ordinary Share (per IFRS) is based on the total gain on ordinary activities for the period attributable to Ordinary shareholders of £11,188,442 (30 June 2016: loss of £8,603,766) and on 15,915,655 (30 June 2016: 15,906,825) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The revenue return per Ordinary Share (per IFRS) is based on the revenue return on activities for the period attributable to Ordinary shareholders of £1,450,010 (30 June 2016: £1,670,927) and on 15,915,655 (30 June 2016: 15,906,825) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The capital return per Ordinary Share (per IFRS) is based on the capital gain on ordinary activities for the period attributable to Ordinary shareholders of £9,738,432 (30 June 2016: loss of £10,274,693) and on 15,915,655 (30 June 2016: 15,906,825) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

### ZDP shares

The return per ZDP Share (per IFRS) is based on the appropriation in respect of ZDP Shares and the amortisation of ZDP Share issue costs totaling £771,881 (30 June 2016: £844,087) and on 21,245,847 (30 June 2016: 21,353,095) shares, being the weighted average number of ZDP Shares in issue during the period.

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

for the period ended 30 June 2017

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

	30 June 2017 GBP	31 Dec 2016 GBP
<b>INVESTMENTS</b>		
Opening portfolio cost	69,405,067	67,722,601
Purchases at cost	19,915,220	22,830,886
Sales		
– proceeds	(18,492,473)	(26,194,906)
– realised gains on sales	4,376,578	7,745,792
– realised losses on sales	(1,167,812)	(2,699,306)
Closing book cost	74,036,580	69,405,067
Unrealised appreciation on investments	27,889,375	20,697,555
Unrealised depreciation on investments	(2,037,307)	(2,930,360)
Fair value	99,888,648	87,172,262
	30 June 2017 GBP	30 June 2016 GBP
Realised gains on sales	4,376,578	4,225,616
Realised losses on sales	(1,167,811)	(2,189,475)
Increase/(Decrease) in unrealised appreciation on investments	7,191,820	(8,939,417)
Decrease/(Increase) in unrealised depreciation on investments	893,053	(2,108,752)
Net gains on financial assets designated as at fair value through profit or loss	11,293,640	(9,012,028)

As at 30 June 2017, the closing fair value of investments comprises £82,327,888 (31 Dec 2016: £72,001,134) of Smaller Companies Portfolio, £17,560,760 (31 Dec 2016: £15,171,128) of Income Portfolio and an asset of £103,078 (31 Dec 2016: asset of £132,661) in respect of long gilts held.

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

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

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

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

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

for the period ended 30 June 2017

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

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

### Financial assets designated as at fair value through profit or loss

	30 June 2017 Market value %	30 June 2017 Market value GBP	31 Dec 2016 Market value %	31 Dec 2016 Market value GBP
Level 1	85.21	85,118,513	84.53	73,688,748
Level 2	14.79	14,769,800	15.47	13,483,142
Level 3	–	335	–	372
Total	100.00	99,888,648	100.00	87,172,262

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

During the prior year, equity securities held within the Income Portfolio were reclassified from Level 2 to Level 1 in order to better reflect the source of inputs for these securities.

The following table is a reconciliation of investments the Company held during the period ended 30 June 2017 and year ended 31 Dec 2016 at fair value using unobservable inputs (Level 3):

	30 June 2017 Market value GBP	31 Dec 2016 Market value GBP
Balance at start period/year end	372	51,173
Unrealised loss on investments	(37)	(50,801)
Balance at end period/year end	335	372

For investments categorised in Level 3 as at 30 June 2017, the below details the valuation methodologies used:

Lehman Brother Holdings Capital Trust V 6.9% – These bonds were subordinated and are in default and the Investment Adviser does not expect any return of capital or interest and the bonds are valued at zero.

Petromena AS 10.85% 2014 – The bonds are in default and are priced from a Bloomberg bond valuation model.

Silverdell plc – The stock is suspended and is valued at zero. The Investment Adviser does not expect any return of capital.

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

for the period ended 30 June 2017

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

### Derivative financial assets and liabilities designated as at fair value through profit or loss

	30 June 2017 Market value %	30 June 2017 Market value GBP	31 Dec 2016 Market value %	31 Dec 2016 Market value GBP
Level 2 derivative financial assets	–	–	100.00	91,470
Level 2 derivative financial liabilities	100.00	19,955	–	–

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

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

## 9 RECEIVABLES

	30 June 2017 GBP	31 Dec 2016 GBP
Due from brokers	–	1,836,578
Prepayments	25,227	17,687
Accrued investment income	380,132	387,952
	405,359	2,242,217

## 10 PAYABLES

	30 June 2017 GBP	31 Dec 2016 GBP
Accrued expenses	68,534	99,992
Amounts due to brokers	270,191	–
Trade creditors	655,197	159,880
ZDP issue costs (2022)	–	210,000
	993,922	469,872

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

for the period ended 30 June 2017

## 11 ZDP SHARES

	30 June 2017 GBP	31 Dec 2016 GBP
ZDP Share entitlement	29,979,295	29,319,945
The above entitlement comprises the following:		
21,357,174 ZDP Shares issued to date up to 31 Dec 2016	22,989,154	–
21,189,384 ZDP Shares issued to date up to 31 Dec 2015	–	22,768,091
1,842,207 ZDP Shares issued during the period to 30 June 2017	2,579,090	–
1,834,160 ZDP Shares sold during the period to 30 June 2017	(2,531,141)	–
167,790 ZDP shares sold out of treasury during the year to 31 Dec 2016	–	221,063
ZDP Premium	(33,801)	(13,501)
Appropriation in respect of ZDP Shares	6,942,192	6,339,204
ZDP value (calculated in accordance with the Articles)	29,945,494	29,314,857
ZDP issue costs	–	(105,483)
Issue costs amortised	–	97,070
Add back ZDP Premium	33,801	13,501
ZDP value (calculated in accordance with IFRS)	29,979,295	29,319,945

The fair value of the ZDP Shares as at 30 June 2017 was £30,926,157 (31 Dec 2016: £29,767,629).

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

A Continuation Offer was made to ZDP Shareholders whereby such holders were given an opportunity to either receive their 2017 Final Capital Entitlement of 138p or to continue their investment in the existing ZDP Shares.

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

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

The ZDP shares were classified on the Statement of Financial Position as a current liability for the year ended 31 December 2016 as the maturity date (31 January 2017) was within one year before extension of their life to 28 February 2022.

It should be noted that the predetermined capital entitlement of a ZDP Share is not guaranteed and is dependent upon the Company's gross assets being sufficient on 28 February 2022 to meet the final capital entitlement of ZDP Shares. If the Company had been wound up on 30 June 2017, the ZDP Shares would have had an entitlement of 140.16 pence each. The ZDP Shares have the right to receive notice of and attend, but shall not have the right to vote at, any general meeting.

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

The number of authorised ZDP Shares is 50,000,000. The number of issued ZDP Shares is 21,365,221 (31 Dec 2016: 21,357,174). The non-amortisation of the ZDP Shares in line with the Articles has the effect of increasing the NAV per Ordinary Share by 0.21 pence.

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

for the period ended 30 June 2017

## 12 SHARE CAPITAL

### Authorised

GBP

Ordinary Shares of 1p each unlimited

### Issued

Number of  
shares

#### The issue of Ordinary Shares took place as follows:

Ordinary Shares	11 Feb 1999	29,600,002
Tender offer	17 Jan 2007	(20,660,212)
Purchase of treasury shares – Year ended 31 December 2011		(215,000)
Placing – Year ended 31 December 2013		6,438,339
Purchase of treasury shares – Year ended 31 December 2013		(1,756,000)
Shares sold out of Treasury – Year ended 31 December 2013		1,971,000
Issue of shares – Year ended 31 December 2014		2,500,205
Buyback of Ordinary Shares – Year ended 31 December 2014		(2,650,000)
Shares sold out of Treasury – Year ended 31 December 2014		390,000
Buyback of Ordinary Shares – Year ended 31 December 2015		(150,002)
Shares sold out of Treasury – Year ended 31 December 2015		317,360
Shares sold out of Treasury – Year ended 31 December 2016		125,000
Number of shares in issue at 31 December 2016		15,910,692
Issue of shares		5,995
Number of shares in issue at 30 June 2017		15,916,687
Issued and fully paid capital as at 30 June 2017		£197,106

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

The issue and fully paid capital as at 30 June 2017 was £197,106 (31 Dec 2016: £171,867).

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

for the period ended 30 June 2017

## 13 TREASURY RESERVES

	30 June 2017 GBP	31 Dec 2016 GBP
Balance as at 1 January	(4,568,238)	(5,064,352)
Treasury shares sold during the period/year	–	496,114
Balance as at 30 June	(4,568,238)	(4,568,238)

	30 June 2017 No. Shares	31 Dec 2016 No. Shares
Balance as at 1 January	1,275,972	1,400,972
Treasury shares sold during the period/year	–	(125,000)
Balance as at 30 June	1,275,972	1,275,972

## 14 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Investment Manager and operates under the terms of the management agreement in force which gives it complete control over the Company's investment portfolio.

£356,975 (30 June 2016: £305,436) of costs were incurred by the Company with this related party in the period, of which £186,147 (31 Dec 2016: £159,880) was due to this related party as at 30 June 2017.

A performance fee amounting to £469,050 was accrued for the period ended 30 June 2017 (2016: Nil).

The directors' remuneration is disclosed in Note 4.

David Warr holds 63,000 (31 Dec 2016: 63,000) Ordinary Shares in the capital of the Company, which represented an interest of 0.40% (31 Dec 2016: 0.40%) of the Company's Ordinary Shares in issue as at 30 June 2017.

## 15 SUBSEQUENT EVENTS

These Financial Statements were approved for issue by the Board on 15 August 2017. Subsequent events have been evaluated until this date.

No significant events have occurred after the statement of financial position date in respect of the Company that may be deemed relevant to the accuracy of these Financial Statements.

# Directors, Advisers and Contacts

## Directors

Helen Foster Green (Chairman)  
John Nigel Ward  
David John Warr

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

## Investment Manager

Premier Asset Management (Guernsey) Limited  
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St Peter Port  
Guernsey  
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Tel: 01483 306090  
Contact: Nigel Sidebottom

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## Investment Adviser – Income Portfolio

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Contact: Nigel Sidebottom

## Administrator and Secretary

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Services (Guernsey) Limited  
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## Custodian

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## Registrar

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Tel: 01481 722260  
Email: [registrars@anson-group.com](mailto:registrars@anson-group.com)

## Company's Registered Office

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Guernsey GY1 3QL

## Company Details

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

Ordinary Shares  
ISIN: GB0004829437  
Ticker: AIF

ZDP Shares  
ISIN: GG00B4W1FT21  
Ticker: AIFZ

