

Law Debenture



Half Yearly Report 2018

The Law Debenture Corporation p.l.c.

We are a global investment trust and a leading provider of independent professional services

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business.

Investment trust

We are a global investment trust, listed on the London Stock Exchange.

Our portfolio of investments is managed by James Henderson of Janus Henderson Investors¹.

Our objective is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Independent professional services

We are a leading provider of independent professional services. Our activities are corporate trusts, pension trusts, corporate services (including agent for service of process), whistle blowing services and governance services. We have offices in the UK, Cayman Islands, Channel Islands, Delaware, Dublin, Hong Kong and New York.

Companies, agencies, organisations and individuals throughout the world rely upon Law Debenture to carry out its duties with the independence and professionalism upon which its reputation is built.

Performance

to 30 June 2018

	6 months %	1 year %	5 years %	10 years %
NAV total return ¹	4.7	10.3	70.2	168.8
FTSE Actuaries All-Share Index total return	1.7	9.0	52.8	111.2
Share price total return	(3.3)	7.3	44.1	203.0

¹ Net Asset Value at fair value calculated in accordance with AIC methodology, based on performance data held by Law Debenture.

	30 June 2018 %
Ongoing charges ²	0.43
Gearing ²	5

Ongoing charges are stated as at 31 December 2017 and are based on the costs of the investment trust, including the Janus Henderson Investors management fee of 0.30% of NAV for the investment trust. There is no performance element related to the fee.

² Source: AIC.

¹ Managed under a contract terminable by either side on six months' notice.

Financial summary and performance

Financial summary

	30 June 2018 pence	30 June 2017 pence	31 December 2017 pence
Net revenue return per share:			
- Investment trust	8.28	8.11	11.61
- Independent professional services	3.60	3.26	9.93
Group charges	–	–	0.12
Group net revenue return per share	11.88	11.37	21.66
Capital return per share	4.78	39.49	67.10
Dividends per share	6.00	5.50	17.30
Share price	596.00	572.00	629.00
NAV per share at fair value ¹	688.29	641.10	669.53
	%	%	%
(Discount)	(13.4)	(10.8)	(6.1)

¹ Net Asset Value at fair value calculated in accordance with AIC methodology, based on performance data held by Law Debenture including fair value of the IPS businesses and long term borrowings.

NAV per share

	30 June 2018 pence	30 June 2017 pence	31 December 2017 pence
NAV per share per financial statements	638.21	599.96	633.28
Fair value adjustment for IPS	70.08	65.99	61.57
Debt fair value adjustment	(20.00)	(24.85)	(25.32)
NAV per share as disclosed with debt at fair value	688.29	641.10	669.53

Fair valuation of the independent professional services businesses

The fair valuation of the independent professional services businesses (IPS) is based upon the historic earnings before interest, taxation, depreciation and amortisation (EBITDA), an appropriate multiple and the surplus net assets of the business at their underlying fair value. The multiple applied in valuing the IPS is from comparable companies sourced from market data, with appropriate adjustments to reflect the difference between the comparable companies and the IPS in respect of growth, margin, size and liquidity.

	30 June 2018 £000	30 June 2017 £000	31 December 2017 £000
EBITDA at a multiple of 8.4 (30 June 2017: 8.3; 31 December 2017: 7.9)	87,696	82,004	77,396
Surplus net assets	22,800	16,730	17,176
	110,496	98,734	94,572

An increase or decrease of 1 in the multiple would give rise to a £10.4 million change in the fair valuation of the IPS. The adjustment to NAV to reflect the IPS fair value is an increase of 70.08p per share (30 June 2017: 65.99p; 31 December 2017: 61.57p).

Half yearly management report

Performance

Our Net Asset Value total return for the six months to 30 June 2018 was 4.7%, compared to a total return of 1.7% for the FTSE Actuaries All-Share Index. Net revenue per share was 11.88p, 4.5% higher than the corresponding period last year (2017: 11.37p).

Dividend

The board has declared an interim dividend of 6.0p (2017: 5.5p). The dividend will be paid on 7 September 2018 to holders on the record date of 10 August 2018. The current expectation of the directors is that the final dividend will be at least maintained.

Investment trust review

Although the first six months of the year was one of significant change in the global economic environment, it did not fundamentally alter the picture regarding equities. The potential for equity market disruption from the onset of a trade war between the US and other countries, combined with a rise in the US bond yield, were countered by a pick-up in US economic activity which drove better corporate operating performance and margin growth. The result has been strong earnings and cash generation.

At a stock level the biggest contributor was **GKN** which was purchased by **Melrose**. Two other aerospace related stocks, **Senior** and **Rolls Royce**, were also large contributors. The aerospace industry in the U.K. is an area of excellence. It should continue to be a good investment area as the number of miles flown globally is growing at over twice the level of the increase in GDP. However, the proceeds from the **GKN** takeover have not yet been directed back into this segment as we monitor the potential impact of Brexit.

The detractors included **Cummins**, the US diesel engine manufacturer, which had been a strong contributor last year but subsequently suffered some share price weakness this year as investor concerns rose over the effect of tariffs between the US and China.

During the period under review we continued to look for opportunities to refresh the portfolio and remain on the lookout for new investments. As an example

we undertook to support the capital raising for **Ceres Power**, a fuel cell company that may be on the cusp of achieving substantial orders after its joint venture tie up with a major Chinese bus maker.

Investment trust outlook

Although companies have achieved strong revenue growth, valuations have drifted lower. Dividends produced by equities continue to grow substantially faster than inflation. The yield on the portfolio is running at a higher level than the yield on gilts. This could mean a small increase in investor confidence will lead to a strong upward movement in share prices as investors reallocate back to UK equities, which are currently unpopular with investors. Concerns remain about the health of the economy, but, with our investment in a collection of good dynamic businesses, we believe in aggregate they can find a way to prosper going forward. We do not believe this is reflected in valuations and for this reason, we have been a net buyer of equities, with gearing moving up a modest amount to 5% at the period end.

Independent professional services review

Our wholly owned IPS businesses are leading providers of independent professional services, providing Law Debenture with a key differentiator to other investment trusts. As indicated in the 2017 annual report, our new CEO is leading a strengthened senior management team, with a clear mandate to grow profitability, while maintaining the unique brand and reputation of Law Debenture.

This strengthened team has delivered a top-line revenue increase of 12.7% (net of cost of sales) and profit after tax has increased by 10.7% compared to the prior period. We are pleased that this increase in profitability has supported an increase in dividend payment to our shareholders of 9.1% compared to the prior period.

The fair value of our IPS businesses has increased by 17% over the first half of this year, which reflects a combination of higher market multiples for relevant comparators and improved profitability. We believe there is more we can do to drive shareholder value from these businesses in the coming years.

Group income statement

for the six months ended 30 June (unaudited)

	30 June 2018			30 June 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	10,618	–	10,618	10,135	–	10,135
UK special dividends	669	–	669	743	–	743
Overseas dividends	2,251	–	2,251	2,537	–	2,537
Overseas special dividends	90	–	90	50	–	50
	13,628	–	13,628	13,465	–	13,465
Interest income	165	–	165	47	–	47
Independent professional services fees	16,010	–	16,010	14,669	–	14,669
Other income	69	–	69	220	–	220
Total income	29,872	–	29,872	28,401	–	28,401
Net gain on investments held at fair value through profit or loss	–	5,939	5,939	–	46,828	46,828
Gross income and capital gains	29,872	5,939	35,811	28,401	46,828	75,229
Cost of sales	(1,548)	–	(1,548)	(1,838)	–	(1,838)
Administrative expenses	(11,321)	(289)	(11,610)	(10,287)	(178)	(10,465)
Operating profit	17,003	5,650	22,653	16,276	46,650	62,926
Finance costs						
Interest payable	(2,386)	–	(2,386)	(2,322)	–	(2,322)
Profit before taxation	14,617	5,650	20,267	13,954	46,650	60,604
Taxation	(578)	–	(578)	(521)	–	(521)
Profit for period	14,039	5,650	19,689	13,433	46,650	60,083
Return per ordinary share (pence)	11.88	4.78	16.66	11.37	39.49	50.86
Diluted return per ordinary share (pence)	11.88	4.78	16.66	11.37	39.49	50.86

Statement of comprehensive income

for the six months ended 30 June (unaudited)

	30 June 2018			30 June 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit for the period	14,039	5,650	19,689	13,433	46,650	60,083
Foreign exchange on translation of foreign operations	–	136	136	–	(119)	(119)
Total comprehensive income for the period	14,039	5,786	19,825	13,433	46,531	59,964

Group statement of financial position

	30 June 2018 (unaudited) £000	30 June 2017 (unaudited) £000	31 December 2017 (audited) £000
Assets			
Non current assets			
Goodwill	1,932	1,941	1,920
Property, plant and equipment	99	136	129
Other intangible assets	154	145	161
Investments held at fair value through profit or loss	771,982	735,791	735,872
Retirement benefit asset	754	–	300
Deferred tax assets	639	1,076	614
Total non current assets	775,560	739,089	738,996
Current assets			
Trade and other receivables	5,335	6,910	6,417
Other accrued income and prepaid expenses	6,892	6,068	5,003
Derivative financial instruments	–	1,017	–
Cash and cash equivalents	105,247	94,462	134,011
Total current assets	117,474	108,457	145,431
Total assets	893,034	847,546	884,427
Liabilities			
Current liabilities			
Trade and other payables	11,629	11,534	11,649
Corporation tax payable	456	23	–
Other taxation including social security	800	597	570
Deferred income	3,978	3,871	3,942
Derivative financial instruments	3,021	–	299
Total current liabilities	19,884	16,025	16,460
Non current liabilities and deferred income			
Long term borrowings	114,090	114,046	114,068
Retirement benefit obligations	–	1,863	–
Deferred income	3,811	4,199	3,974
Provision for onerous contracts	1,128	2,551	1,667
Total non current liabilities	119,029	122,659	119,709
Total net assets	754,121	708,862	748,258
Equity			
Called up share capital	5,918	5,918	5,918
Share premium	8,790	8,753	8,787
Own shares	(1,056)	(1,034)	(1,033)
Capital redemption	8	8	8
Translation reserve	1,797	2,037	1,661
Capital reserves	693,994	655,727	688,344
Retained earnings	44,670	37,453	44,573
Total equity	754,121	708,862	748,258

Group statement of cash flows

	30 June 2018 (unaudited) £000	30 June 2017 (unaudited) £000	31 December 2017 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	22,653	62,926	111,037
(Gains) on investments	(5,650)	(46,650)	(79,267)
(Profit) on sale of unlisted investment	–	–	(3,275)
Foreign exchange (gains)	(12)	(11)	(13)
Depreciation of property, plant and equipment	51	49	101
Amortisation of intangible assets	41	21	61
(Increase) in receivables	(807)	(1,695)	(137)
Increase/(decrease) in payables	105	(1,659)	(2,000)
Transfer from capital reserves	(114)	(40)	(142)
Normal pension contributions in excess of cost	(454)	(437)	(800)
Cash generated from operating activities	15,813	12,504	25,565
Taxation	(147)	(262)	(1,035)
Operating cash flow	15,666	12,242	24,530
Investing activities			
Acquisition of property, plant and equipment	(21)	(27)	(74)
Expenditure on intangible assets	(34)	(96)	(149)
Purchase of investments	(66,829)	(38,385)	(80,356)
Sale of investments	36,529	45,442	120,089
Sale of unlisted investment	–	–	3,318
Cash flow from investing activities	(30,355)	6,934	42,828
Financing activities			
Derivative financial instrument	1,812	(1,148)	1,698
Interest paid	(2,925)	(2,888)	(5,916)
Dividends paid	(13,942)	(13,582)	(20,081)
Proceeds of increase in share capital	3	32	66
Purchase of own shares	(23)	163	164
Net cash flow from financing activities	(15,075)	(17,423)	(24,069)
Net (decrease)/increase in cash and cash equivalents	(29,764)	1,753	43,289
Cash and cash equivalents at beginning of period	134,011	94,804	94,804
Foreign exchange gains/(losses) on cash and cash equivalents	1,000	(2,095)	(4,082)
Cash and cash equivalents at end of period	105,247	94,462	134,011
Cash and cash equivalents comprise			
Cash and cash equivalents	105,247	94,462	134,011

Group statement of changes in equity and segmental analysis

Group statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000
Balance at 1 January 2018	5,918	8,787	(1,033)	8	1,661
Profit	-	-	-	-	-
Foreign exchange	-	-	-	-	136
Total comprehensive income for the period	-	-	-	-	136
Issue of shares	-	3	-	-	-
Movement in own shares	-	-	(23)	-	-
Dividend relating to 2017	-	-	-	-	-
Total equity at 30 June 2018	5,918	8,790	(1,056)	8	1,797

Group segmental analysis

	Investment trust			Independent professional services	
	30 June 2018 £000	30 June 2017 £000	31 December 2017 £000	30 June 2018 £000	30 June 2017 £000
Revenue					
Segment income	13,628	13,465	21,463	16,012	14,669
Net gain on investments	-	-	-	-	-
Other income	67	63	95	2	157
Cost of sales	-	-	-	(1,548)	(1,838)
Administration costs	(1,665)	(1,661)	(3,274)	(9,658)	(8,626)
Release of onerous contracts	-	-	-	-	-
	12,030	11,867	18,284	4,808	4,362
Interest (net)	(2,249)	(2,280)	(4,561)	28	5
Return, including profit on ordinary activities before taxation	9,781	9,587	13,723	4,836	4,367
Taxation	-	-	-	(578)	(521)
Return, including profit attributable to shareholders	9,781	9,587	13,723	4,258	3,846
Revenue return per ordinary share (pence)	8.28	8.11	11.61	3.60	3.26
Assets	821,211	784,123	816,595	71,596	63,070
Liabilities	(93,876)	(96,025)	(90,152)	(43,909)	(40,108)
Total net assets	727,335	688,098	726,443	27,687	22,962

The capital element of the income statement is wholly attributable to the investment trust.

Capital reserves £000	Retained earnings £000	Total £000
688,344	44,573	748,258
5,650	14,039	19,689
–	–	136
5,650	14,039	19,825
–	–	3
–	–	(23)
–	(13,942)	(13,942)
693,994	44,670	754,121

31 December 2017 £000	Group charges			Total		
	30 June 2018 £000	30 June 2017 £000	31 December 2017 £000	30 June 2018 £000	30 June 2017 £000	31 December 2017 £000
31,021	–	–	–	29,640	28,134	52,484
3,275	–	–	–	–	–	3,275
249	–	–	–	69	220	344
(3,875)	–	–	–	(1,548)	(1,838)	(3,875)
(17,568)	–	–	–	(11,323)	(10,287)	(20,842)
–	–	–	245	–	–	245
13,102	–	–	245	16,838	16,229	31,631
(85)	–	–	–	(2,221)	(2,275)	(4,646)
13,017	–	–	245	14,617	13,954	26,985
(1,287)	–	–	(104)	(578)	(521)	(1,391)
11,730	–	–	141	14,039	13,433	25,594
9.93	–	–	0.12	11.88	11.37	21.66
67,613	227	353	227	893,034	847,546	884,435
(44,358)	(1,128)	(2,551)	(1,667)	(138,913)	(138,684)	(136,177)
23,255	(901)	(2,198)	(1,440)	754,121	708,862	748,258

Analysis of the investment portfolio

By geographical location

	Valuation 31 December 2017 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 30 June 2018 £000	%
United Kingdom	532,923	47,621	(213)	(27,051)	11,023	564,303	73.1
North America	68,796	–	–	(698)	(1,009)	67,089	8.7
Europe	61,119	19,208	(30)	(6,136)	(3,010)	71,151	9.2
Japan	15,484	–	–	–	(95)	15,389	2.0
Other Pacific	39,618	–	–	(2,644)	(73)	36,901	4.8
Other	17,932	–	–	–	(783)	17,149	2.2
	735,872	66,829	(243)	(36,529)	6,053	771,982	100.0

By sector (excluding cash)

	As at 30 June 2018 %	As at 31 December 2017 %
Oil & gas	11.0	9.4
Basic materials	6.9	7.1
Industrials	25.5	28.2
Consumer goods	3.8	5.9
Health care	8.2	7.5
Consumer services	8.3	8.5
Telecommunications	1.4	1.2
Utilities	3.3	1.5
Financials	28.6	28.8
Technology	3.0	1.9
	100.0	100.0

Investment portfolio valuation

as at 30 June 2018

UK unless otherwise stated

Holdings in italics were acquired since 31 December 2017

	£000	%
Oil & gas		
Oil & gas producers		
Royal Dutch Shell	33,919	4.39
BP	18,506	2.40
Indus Gas	5,697	0.74
Tullow Oil	4,898	0.63
Gibson Energy (Can)	4,662	0.60
Total (Fra)	2,503	0.32
Premier Oil	1,606	0.21
Providence Resources	366	0.05
	72,157	9.34
Oil equipment services & distribution		
Ceres Power	5,160	0.67
Schlumberger (USA)	4,062	0.53
Velocys	1,931	0.25
National Oilwell Varco (USA)	1,643	0.21
Now (USA)	126	0.02
	12,922	1.68
Total oil & gas	85,079	11.02

Basic materials

Chemicals		
Croda	8,114	1.05
Elementis	5,353	0.69
<i>Koninklijke DSM (Net)</i>	2,086	0.27
Linde (Ger)	1,811	0.23
Brenntag (Ger)	1,446	0.19
Carclo	1,001	0.13
	19,811	2.56
Forestry & paper		
Mondi	8,196	1.06
	8,196	1.06
Mining		
Rio Tinto	15,752	2.04
BHP Billiton	9,381	1.22
	25,133	3.26
Total basic materials	53,140	6.88

Industrials

	£000	%
Construction & materials		
Marshalls	7,772	1.01
Ibstock	5,808	0.75
Balfour Beatty	5,713	0.74
Accsys Technologies	5,535	0.72
<i>Geberit (Swi)</i>	2,197	0.28
<i>Assa Abloy (Swe)</i>	1,837	0.24
	28,862	3.74
Aerospace & defence		
Senior	17,431	2.26
Rolls Royce	16,305	2.11
BAE Systems	11,642	1.51
Embraer (Bra)	6,474	0.84
Meggitt	4,933	0.64
	56,785	7.36
General industrials		
Smith (DS)	11,527	1.49
	11,527	1.49

Electronic & electrical equipment

Spectris	11,088	1.44
Morgan Advanced Materials	9,786	1.27
TT Electronics	3,516	0.46
Legrand (Fra)	1,996	0.26
	26,386	3.43

Industrial engineering

Hill & Smith	8,652	1.12
Caterpillar (USA)	7,193	0.93
Cummins (USA)	6,044	0.78
IMI	4,948	0.64
Deere (USA)	4,134	0.54
Weir Group	4,000	0.52
Renold	1,757	0.23
Severfield	715	0.09
	37,443	4.85

Industrial transportation

Eddie Stobart Logistics	5,250	0.68
Deutsche Post (Ger)	3,012	0.39
AP Moller-Maersk (Den)	1,329	0.17
Wincanton	1,211	0.16
	10,802	1.40

Investment portfolio valuation continued

	£000	%
Support services		
Johnson Service	12,410	1.61
Babcock	8,145	1.06
SGS (Swi)	2,519	0.33
Interserve	1,689	0.22
Augean	377	0.05
	25,140	3.27

Total industrials **196,945** **25.54**

Consumer goods

Automobiles & parts

Toyota Motor (Jap)	8,039	1.04
General Motors (USA)	6,714	0.87
	14,753	1.91

Beverages

Pernod-Ricard (Fra)	2,321	0.30
	2,321	0.30

Food producers

Nestlé (Swi)	2,584	0.33
	2,584	0.33

Household goods & home construction

Watkin Jones	7,088	0.92
	7,088	0.92

Personal goods

L'Oreal (Fra)	2,476	0.32
	2,476	0.32

Total consumer goods **29,222** **3.78**

Health care

Health care equipment & services

Becton Dickinson (USA)	9,072	1.18
Smith & Nephew	6,571	0.85
Spire Healthcare	5,004	0.65
Fresenius (Ger)	2,770	0.36
Philips Electronics (Net)	2,346	0.30
Fresenius Medical Care (Ger)	2,247	0.29
	28,010	3.63

	£000	%
Pharmaceuticals & biotechnology		
GlaxoSmithKline	16,063	2.08
AstraZeneca	5,253	0.68
Pfizer (USA)	4,122	0.53
Johnson & Johnson (USA)	3,217	0.42
Novartis (Swi)	2,728	0.35
Novo-Nordisk (Den)	2,347	0.30
Roche (Swi)	1,581	0.20
	35,311	4.56

Total health care **63,321** **8.19**

Consumer services

General retailers

Dunelm	3,282	0.43
Findel	2,542	0.33
Inditex (Spa)	1,252	0.16
Topps Tiles	401	0.05
	7,477	0.97

Media

Relx	12,169	1.58
Sky	8,038	1.04
Daily Mail & General Trust	3,814	0.49
Mirriad Advertising	660	0.09
	24,681	3.20

Travel & leisure

International Consolidated Airlines	7,468	0.97
Irish Continental (Ire)	5,423	0.70
Greene King	4,889	0.63
Fastjet	4,374	0.57
Carnival	4,347	0.56
Marstons	2,168	0.28
Ryanair (Ire)	2,097	0.27
Paddy Power Betfair	830	0.11
	31,596	4.09

Total consumer services **63,754** **8.26**

Telecommunications

Mobile telecommunications

Vodafone	6,433	0.83
Deutsche Telekom (Ger)	2,114	0.27
Inmarsat	1,994	0.26

Total telecommunications **10,541** **1.36**

	£000	%
Utilities		
Electricity		
SSE	4,063	0.53
<i>Simec Atlantis Energy</i>	1,886	0.24
	5,949	0.77
Gas, water & multiutilities		
National Grid	10,976	1.42
Severn Trent	8,908	1.15
	19,884	2.57
Total utilities	25,833	3.34
Financials		
Banks		
HSBC	18,738	2.43
Standard Chartered	8,905	1.15
ING Group (Net)	1,535	0.20
UBS (Swi)	1,374	0.18
Permanent TSB (Ire)	7	—
	30,559	3.96
Nonlife insurance		
Hiscox	11,293	1.46
RSA Insurance	9,506	1.23
Direct Line Insurance	4,286	0.56
<i>Muenchener Rueckver (Ger)</i>	2,000	0.26
Allianz (Ger)	1,435	0.19
	28,520	3.70
Life insurance/assurance		
Prudential	12,731	1.65
Aviva	3,955	0.51
Chesnara	3,754	0.49
	20,440	2.65
Real estate investments & services		
St Modwen Properties	7,777	1.01
	7,777	1.01
Real estate investment trusts		
Land Securities	9,077	1.18
Urban Logistics REIT	8,126	1.05
Mucklow (A&J) Group	4,125	0.53
<i>Hammerson</i>	2,610	0.34
	23,938	3.10

	£000	%
Financial services		
IP Group	7,555	0.98
Provident Financial	6,196	0.80
<i>Allied Minds</i>	4,200	0.54
Oxford Sciences Innovation (unlisted)	3,700	0.48
International Personal Finance	3,465	0.45
Standard Life Aberdeen	2,442	0.32
Amundi (Fra)	2,369	0.31
Deutsche Börse (Ger)	2,194	0.28
	32,121	4.16
Equity and collective investment instruments		
Stewart Investors Asia Pacific	16,477	2.13
Baillie Gifford Pacific	13,129	1.70
Herald Investment Trust	11,348	1.47
Templeton Emerging Markets		
Investment Trust	10,675	1.38
Schroder Japan Growth Fund (Jap)	7,350	0.95
Scottish Oriental Smaller		
Company Trust	7,295	0.95
<i>John Laing Infrastructure Fund</i>	3,546	0.46
Foresight Solar	3,255	0.42
Syncona	2,889	0.37
Better Capital (2012)	1,300	0.17
	77,264	10.00
Total financials	220,619	28.58
Technology		
Software & computer services		
Microsoft (USA)	11,203	1.45
SAP (Ger)	2,764	0.36
Amadeus IT (Spa)	2,364	0.31
	16,331	2.12
Technology hardware & equipment		
Applied Materials (USA)	4,897	0.63
<i>ASML (Net)</i>	2,087	0.27
	6,984	0.90
Total technology	23,315	3.02
Other		
Other	213	0.03
Total other	213	0.03
Total investments	771,982	100.00

Principal risks and uncertainties

The principal risks of the Corporation relate to the investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk and credit risk. These are explained in the notes to the annual accounts for the year ended 31 December 2017. In the view of the board these risks are as applicable to the remaining six months of the financial year as they were to the period under review.

The principal risks of the independent professional services business arise during the course of defaults, potential defaults and restructurings where we have been appointed to provide services. To mitigate these risks we work closely with our legal advisers and, where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable, and at all other stages whether or not there is a danger of default.

Related party transactions

There have been no related party transactions during the period which have materially affected the financial position or performance of the group. During the period transactions between the Corporation and its subsidiaries have been eliminated on consolidation. Details of related party transactions are given in the notes to the annual accounts.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit of the group as required by DTR 4.2.4R;
- the half yearly 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.

On behalf of the board

Robert Hingley

Chairman

25 July 2018

Basis of preparation

The results for the period have been prepared in accordance with International Financial Reporting Standards (IAS 34 – Interim financial reporting).

The financial resources available are expected to meet the needs of the group for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

The group's accounting policies during the period are the same as in its 2017 annual financial statements, except for those that relate to new standards effective for the first time for periods beginning on (or after) 1 January 2018, and will be adopted in the 2018 annual financial statements. New standards impacting the group that will be adopted in the annual financial statements for the year ended 31 December 2018 are IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

Details of the impacts are as follows:

- IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement and has not materially impacted the results. The replacement of the 'incurred loss' model with a forward looking 'expected credit loss' model has resulted in an increase in the impairment provision of £49,000. There are no changes to the classification of financial assets and no impact to the fair value of long term borrowings. The group has elected to continue to apply the hedge accounting requirements of IAS 39.
- IFRS 15 Revenue from Contracts with Customers has had no impact on the financial results. Revenue is measured based on the consideration specified in a contract with a customer and is recognised by the group when it transfers control over a service to a customer. Each of the revenue streams generated by the IPS businesses has been assessed and no amendment to the current revenue recognition policy is required.

Notes

1. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 435 of the Companies Act 2006 and has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The annual report and financial statements for 2017 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2017 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.
2. The calculations of NAV and earnings per share are based on:
NAV: shares at end of the period 118,162,191 (30 June 2017: 118,152,259; 31 December 2017: 118,160,055).
Income: average shares during the period 118,160,332 (30 June 2017: 118,134,437; 31 December 2017: 118,136,983).
3. Listed investments are all traded on active markets and as defined by IFRS 7 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices. Unlisted investments are Level 3 financial instruments. They are valued by the directors using unobservable inputs including the underlying net assets of the instruments.

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