abrdn Equity Income Trust plc

Half Yearly Report 31 March 2023

Equity income using an index-agnostic approach focusing on our best ideas from the full UK market cap spectrum

abrdnequityincome.com

Contents

The Company

abrdn Equity Income Trust plc (the "Company") is a closed-end investment company and its shares are traded on the London Stock Exchange ("LSE").

The Company offers an actively managed portfolio of UK quoted companies. The investment approach is index-agnostic and the focus is on those companies delivering sustainable dividend growth.

Investment Objective

The investment objective of the Company is to provide Shareholders with an above average income from their equity investment, while also providing real growth in capital and income.

Performance Highlights

Overview
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General Information

Net asset value total return per Ordinary share[A]
Six months ended 31 March 2023

+3.3%

Year ended 30 September 2022 –7.6%

Share price total return per Ordinary share[A]
Six months ended 31 March 2023

+13.5%

Year ended 30 September 2022 –7.8%

Revenue return per Ordinary share
Six months ended 31 March 2023

8.60p

Six months ended 31 March 2022 8.75p

Premium/(discount) to net asset value[A]
As at 31 March 2023

0.1%

Year ended 30 September 2022 –8.8%

Dividend yield[A]
As at 31 March 2023

6.9%

As at 30 September 2022 7.5%

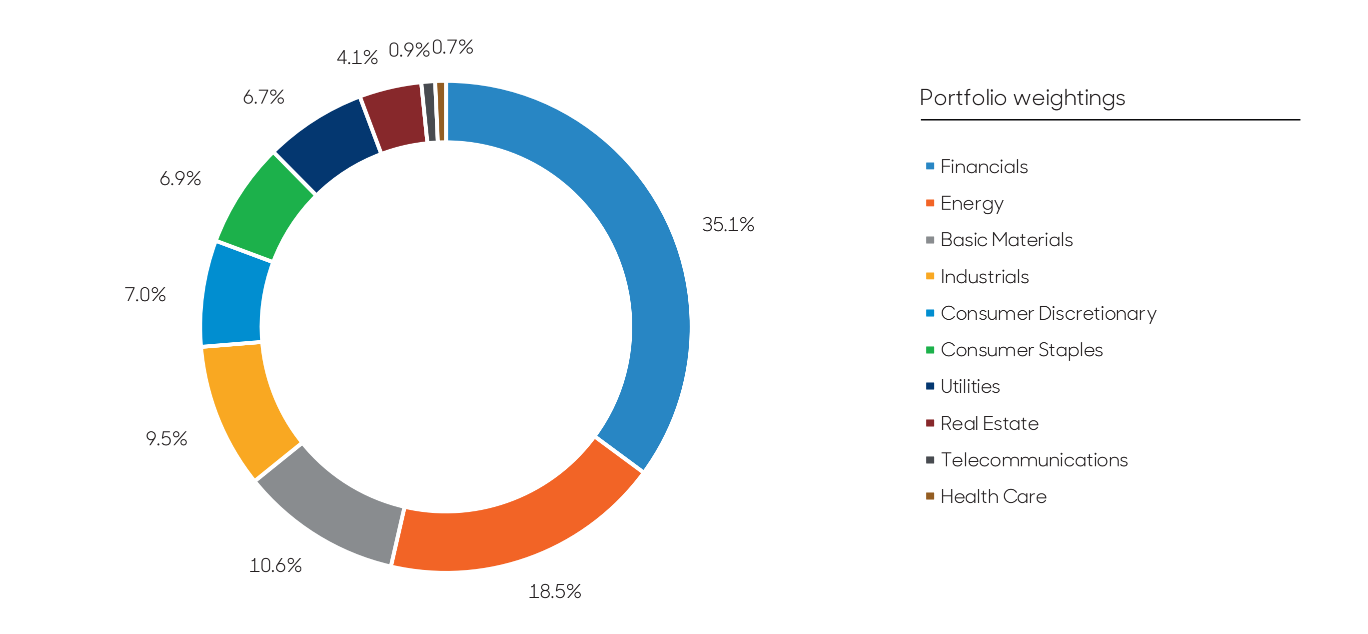
Ongoing charges ratio[A]
Forecast for year ending 30 September 2023

0.98%

Year ended 30 September 2022 0.91%

[A] Considered to be an Alternative Performance Measure.

Investment Portfolio by Sector as at 31 March 2023



Financial Calendar and Highlights

Expected payment dates of interim dividends for the remainder of the financial year to 30 September 2023	**22 June 2023** **22 September 2023** **8 January 2024**
Financial year end	**30 September 2023**
Expected announcement of results for year ended 30 September 2023	**December 2023**
Annual General Meeting (London)	**February 2024**

Financial Highlights

Capital return	**31 March 2023**	**30 September 2022**	**% change**
Total assets[A] (m)	**£181.9**	£182.5	–0.3%
Equity Shareholders' funds (m)	**£156.9**	£157.5	–0.4%
Net asset value per Ordinary share	**331.21p**	331.77p	–0.2%
Market capitalisation (m)	**£157.0**	£143.6	+9.3%
Share price per Ordinary share	**331.5p**	302.5p	+9.6%
Premium/(discount) of Ordinary share price to net asset value[B]	**0.1%**	(8.8%)	
FTSE All-Share Index	**4,157.88**	3,763.48	+10.5%
Revenue return per Ordinary share[C]	**8.60p**	8.75p	–1.7%
Gearing – net[B]	**14.8%**	15.0%	
Ongoing charges ratio[BD]	**0.98%**	0.91%	

[A] Defined as total assets per the Statement of Financial Position less current liabilities (before deduction of bank loans).
[B] Considered to be an Alternative Performance Measure as defined on pages 31 to 33.
[C] Figure for 31 March 2023 is for the six months to that date. Figure for 30 September 2022 is for the six months to 31 March 2022.
[D] The ongoing charges ratio for the current year includes a forecast of costs and net assets for the six months to 30 September 2023.

"Given the outlook for the rest of the financial year, the Board remains confident that the full year earnings will be sufficient to cover the proposed full year dividend of, at least, 22.80 pence per Ordinary share."

Sarika Patel, Chair

Chair's Statement

I am delighted to report to you for the first time as Chair of the abrdn Equity Income Trust plc ("the Company"), having taken over the role in February. I would like to thank Mark White for his commitment to the Company over the last nine years and his steely focus on income delivery.

Revenue

Total income in the six months of the financial year was largely unchanged at £4.71m compared to £4.70m for the same period last year. Management fees and administrative expenses charged to revenue were up 5.5% at £406k compared to £385k in 2022.

After interest costs and tax, net earnings were marginally down 3.0% to £4.08m and the revenue per ordinary share was 8.60 pence per Ordinary share compared to 8.75 pence per Ordinary share in 2022.

Typically, the Company earns between 30% and 40% of the total income for the year in the first six months, and this year looks to be on track to be in that range. As a result, given the outlook for the rest of the financial year, the Board remains confident that the full year earnings will be sufficient to cover the proposed dividend.

Performance

In the six months to 31 March 2023, the Company delivered a NAV total return of 3.3% which underperformed the total return of the FTSE All-Share Index of 12.3%. However, on a more positive note, the Board was encouraged by the share price total return of 13.5% during the period, which resulted in the most significant narrowing of any discount in the UK Equity Income Sector. The share price discount reduced from around 10% in November 2022 to a small premium at 31 March 2023, following the announcement of the Company's full year results last December.

The capital performance is disappointing, and was particularly affected by the fall in energy prices which led to holdings such as Thungela Resources and Diversified Energy reversing the gains they had made in the previous six months.

However, the Board recognises that it has set the Manager the task of ensuring that the dividend is covered by earnings in the current year, with an expectation of sustainable growth, and the portfolio is positioned accordingly.

The Investment Manager's Review on pages 9 to 14 provides a more detailed explanation of the drivers of the Company's performance.

Share Rating

The Board is pleased to be able to report that the Company's share price discount to NAV, on a cum income basis, has narrowed steadily from 8.8% on the first day of the period to a small premium of 0.1% at the end of the period.

Since the beginning of December 2022 the discount has typically traded at less than 2%, and averaged 1.2%, and for brief periods has traded at a premium, which is a far cry from the four months prior to December 2022, when the discount averaged 8.6%.

It is also worth noting that while the share price had been trading at a wider discount than the average for the sector, this situation has reversed. The very sharp move in the discount last December and the fact that it has been sustained at this level suggests to the Board that the market appreciates the focus on delivering a covered and sustainably growing dividend and the Board intends to maintain that focus.

Dividends

The Board declared its plans for the dividend for the current financial year in last year's annual report and the proposed schedule is unchanged at this time.

The first three interim dividends for the current year will be 5.7 pence per Ordinary share. The first of these was paid to Shareholders on 22 March 2023 and the Board announces that the second interim dividend of 5.7 pence per Ordinary share will be paid on 22 June 2023 to Shareholders on the register on 26 May 2023 with an associated ex-dividend date of 25 May 2023. The third interim dividend of 5.7 pence per Ordinary share will be paid in September and the fourth interim dividend will be determined when the accounts are being finalised in November / December. The Board's expectation remains that the fourth interim dividend will be at least 5.7 pence per Ordinary share, making a total payment for the year of at least 22.80 pence per Ordinary share.

Based on the share price at 31 March 2023, this puts the Company on a dividend yield of 6.9%, which is amongst the highest of any equity investment trust.

Gearing

At 31 March 2023 £25m of the Company's £30m loan facility was drawn and net gearing amounted to 14.8% of assets, compared to 15.0% in September 2022. The borrowing is in the form of a revolving credit facility which cost 5.0% at the end of the period.

Buybacks

In the first two months of the period under review, the company bought back 100,417 shares at an average price of 310.9 pence per share and a weighted average discount of 10.0%. Since the beginning of December, the share price has traded at levels very close to the underlying NAV, negating the need for any further buy backs. Shares bought back are held in treasury.

The Board continues to monitor the discount and premium and will re-issue treasury shares if a material premium persists or buyback shares into treasury if the discount is considered too wide in absolute and relative terms.

Board

As I mentioned above, I was delighted to assume the role of Chair from Mark White on 2 February 2023. Mark retired as Chair and as a Director at the AGM in February 2023 having served on the Board since November 2013. Mark Little succeeded me as Chair of the Audit Committee at the same time.

Outlook

There seem to have been storm clouds on the economic horizon for some time now and we do not see much sign of them dissipating in the near future. Having said that, we are of the view that despite them looking ominous, there remain opportunities in the market that, as our Manager has demonstrated, can be pursued. The macro environment is going to remain challenging with respect to inflation, the cost-of-living crisis, and the war in Ukraine. However, the indications are that they are not going to be quite as damaging, economically, as was being predicted six months ago; the UK was expected to have gone into recession but that has not yet happened.

The Bank of England raised interest rates to 4.5 per cent on 11 May 2023, and warned it would not hit its inflation target until 2025. Investing against such a backdrop remains challenging. However, the Board has maintained its guidance to the Manager that delivering a covered and sustainably growing dividend is the primary focus. The Board has reviewed the dividend projections and reaffirms its intention to pay three interim dividends of 5.7 pence per Ordinary share and to ensure that the full year's dividend will be at least 22.80 pence per Ordinary share.

Sarika Patel
Chair
15 May 2023

Interim Management Report and Directors' Responsibility Statement

Principal Risks and Uncertainties

The Board has an ongoing process for identifying, evaluating and managing the principal and emerging risks and uncertainties of the Company and has carried out a robust review. The process is regularly reviewed by the Board. Most of the Company's principal risks and uncertainties are market related and are no different from those of other investment trusts that invest primarily in the UK listed market. These are set out within the Strategic Report contained within the Annual Report for the year ended 30 September 2022 and comprise the following risk categories:

- Strategy;
- Investment Performance;
- Exogenous risks such as health, social, financial, economic and geopolitical;
- Operational Risk;
- Governance Risk;
- Discount / Premium to NAV;
- Financial obligations; and
- Legal and Regulatory Risks.

The Board continues to closely monitor the political and economic uncertainties which could affect markets, particularly the heightened interest rate risk and the knock on impact on the recent collapse of the likes of Silicon Valley Bank, Credit Suisse and First Republic Bank. The Board also monitors the impact of the ongoing war in Ukraine and potential supply chain issues. The Company has made enquiries of its Manager and third party service providers in relation to continued compliance with sanctions measures enacted by the UK in response to Russia's invasion of Ukraine.

The Board is also very conscious of the risks emanating from increasing Environmental, Social and Governance ("ESG") challenges together with climate change and continues to monitor, through its Investment Manager, the potential risk that investee companies may fail to keep pace with the rates of ESG and Climate Change adaptation required.

In all other respects, the Company's principal risks and uncertainties have not changed materially since the date of the 2022 Annual Report.

Going Concern

In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's assets consist substantially of equity shares in companies listed on recognised stock exchanges and in most circumstances are realisable within a short timescale. The Company has adequate resources to continue in operational existence for the foreseeable future and the ability to meet all its liabilities and ongoing expenses from its assets.

The Directors are mindful of the principal and emerging risks and uncertainties disclosed above, and review on a regular basis forecasts detailing revenue and liabilities and the Company's operational expenses. Having reviewed these matters, the Directors believe that the Company has adequate financial resources to continue its operational existence for the foreseeable future and for at least 12 months from the date of this Half Yearly Report. Accordingly, they continue to adopt the going concern basis in preparing the Half Yearly Report.

Related Party Transactions

There have been no material changes in the related party transactions described in the 2022 Annual Report.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

The Disclosure Guidance and Transparency Rules require the Directors to confirm their responsibilities in relation to the preparation and publication of the Interim Management Report and Financial Statements.

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements contained within the Half Yearly financial report has been prepared in accordance with FRS 104 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and return of the Company for the period ended 31 March 2023.
- The Interim Management Report, together with the Chair's Statement and Investment Manager's Report, includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure Guidance 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 Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

The Half-Yearly Financial Report was approved by the Board and the above Directors' Responsibility Statement was signed on its behalf by the Chair.

For abrdn Equity Income Trust plc
Sarika Patel
Chair
15 May 2023

Our Strategy

Business Model

The Company is an investment trust with a premium listing on the London Stock Exchange.

Investment Objective

The Company's objective is to provide shareholders with an above average income from their equity investment, while also providing real growth in capital and income.

Investment Policy

The Directors set the investment policy, which is to invest in a diversified portfolio consisting mainly of quoted UK equities which will normally comprise between 50 and 70 individual equity holdings.

In order to reduce risk in the Company without compromising flexibility:

a) no holding within the portfolio should exceed 10% of total assets at the time of acquisition; and

b) the top ten holdings within the portfolio will not exceed 50% of net assets.

The Company may invest in convertible preference shares, convertible loan stocks, gilts and corporate bonds.

The Directors set the gearing policy within which the portfolio is managed. The parameters are that the portfolio should operate between holding 5% net cash and 15% net gearing. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

Delivering the Investment Objective

The Board delegates investment management to abrdn plc ("abrdn"). The team within abrdn managing the Company's portfolio of investments has been headed up by Thomas Moore since 2011.

Our Strategy

The portfolio is invested on an index-agnostic basis. The process is based on a bottom-up stock-picking approach where sector allocations are a function of the sum of the stock selection decisions, constrained only by appropriate risk control parameters. The aim is to apply the "Focus on Change" process by evaluating changing corporate situations and identifying insights that are not fully recognised by the market.

Idea Generation and Research

The vast majority of the investment insights are generated from information and analysis from one-on-one company meetings. Collectively, more than 6,000 company meetings are conducted annually by abrdn. These meetings are used to ascertain the company's own views and expectations of its future prospects and the markets in which it operates. Through actively questioning the senior management and key decision makers of companies, the portfolio managers and analysts look to uncover the key changes affecting the business and the materiality of their impact on company fundamentals within the targeted investment time horizon.

ESG considerations are at the heart of this engagement. Understanding a company's attitudes towards ESG issues helps to mitigate risks and actively enhance returns. As part of the company research, analysts evaluate the ownership structures, governance and management quality of the companies. Potential environmental and social risks that these companies may face are also assessed. The Investment Manager employs dedicated ESG specialists who sit within each regional investment team, providing industry-leading expertise and insight at the company level. These specialists also mediate the insights of the central team to the stock analysts, as well as interpret and contextualise sector and company insights. The central ESG team provides thought leadership, thematic and global sector insights, as well as event-driven research.

Investment Process in Practice

The index-agnostic approach allows the weightings of holdings to reflect the conviction levels of the investment team, based on an assessment of the management team, the strategy, the prospects and the valuation metrics. The Focus on Change process recognises that some of the best investment opportunities come from under-researched parts of the market, where the breadth and depth of the analyst coverage that the Portfolio Manager can access provides the scope to identify a range of investment opportunities.

The consequence of this is that the Company's portfolio often looks very different from other investment vehicles which aim to provide their investors with access to UK equity income. This is because the process focuses on conviction levels rather than index weightings. This means that the Company may provide a complementary portfolio to the existing portfolios of investors who prefer to make their own decisions and manage their ISAs, SIPPs and personal dealing accounts themselves. Currently 51% (30 September 2022: 57%) of the Company's portfolio is invested in companies outside the FTSE 100 Index.

The index-agnostic approach, and Focus on Change process, further differentiates the portfolio because it allows the Portfolio Manager to take a view at a thematic level, concentrate the portfolio's holdings in certain areas and avoid others completely. The effect of this approach is that the weightings of the portfolio can be expected to differ significantly from that of any index, and the returns generated by the portfolio may reflect this divergence, particularly in the short term.

Investment Manager's Review

Market Review

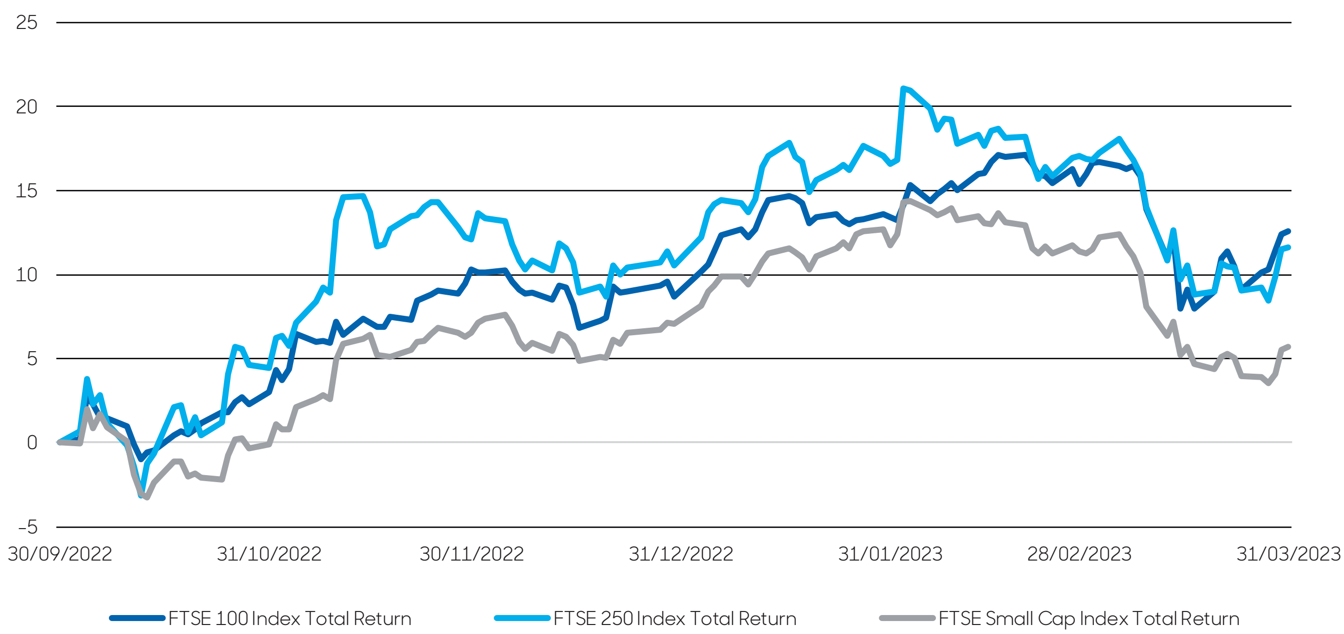
Despite ongoing geopolitical tensions, the UK equity market generated positive returns during the six month period to 31 March 2023 helped by peaking inflation fears and data suggesting that the economy might avoid recession.

The financial year began with a resolution to a lengthy period of UK political uncertainty that had accompanied the announcements of the resignation of prime ministers Boris Johnson in July 2022 and Liz Truss in October 2022. Markets were reassured by the policies introduced by Rishi Sunak as Prime Minister and Jeremy Hunt as Chancellor, as reflected in a reduction in Gilt yields and a recovery in sterling. Economic forecasts were progressively revised upwards, albeit remaining at very subdued levels, as the employment and housing markets remained more resilient than the economists had feared. By the end of the period it had become clearer that the economy might be on track to avoid a recession. At the same time, the reopening of the Chinese economy following the lifting of Covid restrictions helped to lift global growth expectations.

The most important economic variable in the UK was Consumer Price Inflation (CPI) given its bearing on interest rates. CPI hit a peak of 11.1% in October 2022, its highest level in more than 40 years, driven by a range of factors, including tight labour markets, the Russia-Ukraine war and supply chain issues including shortages of fresh produce. The Bank of England, focusing on signs that tight labour markets were causing core inflation to remain elevated, responded by raising the base rate four times. By the end of the period CPI had fallen back from the highs, although it remained well above the Bank of England's target. This prompted the twelfth consecutive increase in the Bank of England base rate on 11 May 2023, taking it to 4.5%, the highest level since 2008.

In March 2023, markets suffered a jolt from the collapse of US-based Silicon Valley Bank and the demise of Credit Suisse, although intervention from financial regulators helped to limit the contagion across the global financial system. This episode provided a reminder of the fragilities that can be exposed as economies adjust to a world of higher interest rates. It also fuelled investor hopes that the end of the rate-hike cycle could be brought forward.

The Company's Reference Index, the FTSE All-Share Index, delivered a total return of 12.3% over the period, although there were significant variations in performance within the UK market. The FTSE 100 Index produced a total return of 12.7%, reflecting investors' preference for larger, more liquid stocks during nervous market conditions. The more domestically-orientated FTSE 250 and Small Cap indices initially staged a recovery as sentiment towards the UK economy improved, but retraced much of their gains in February and March as worries about the banking system caused investors to shun less liquid stocks. They ended up returning 11.6% and 5.7% respectively. The divergence of nearly 7% in total returns between the FTSE 100 and the FTSE Small Cap indices was particularly striking, extending a prolonged period of large-cap outperformance.



Revenue Account

Dividends distributed by our portfolio in the period under review were largely unchanged at £4.7 million. We remain confident that the second half of the year will generate more than 60% of the total income for the period. This is the experience of the last 10 years to differing degrees and is as a result of many of the holdings declaring their final dividend for their previous financial year after our period end.

The contribution from special dividends remained low at 3.2% of the dividend income but was an improvement on the nil return for the same period last year. The return of special dividends could reflect an early sign of some confidence that earnings are recovering, although we are also witnessing a growing tendency of management teams to distribute surplus capital via buybacks rather than special dividends. We note that 26 of our holdings have done a share buyback during the current financial year.

Net revenue earnings for the six month period were £4.1 million, or 3.0% lower than last year’s £4.2 million. Management fees were 4% lower, but this is a function of the decrease in the value of the portfolio. Total expenditure before interest and tax was 5.5% higher than last year. This was largely due to the comparative year’s professional fees being a rebate as a result of reversal of provisions in the year prior.

We are forecasting that the portfolio is currently expecting to deliver a gross dividend yield, before costs, of around 6.9% based on the income expected to be generated by the portfolio over this financial year divided by the portfolio value at the period end. While this is lower than it was at the end of the last financial year it continues to represent a significant premium to the dividend yield of the Reference Index of 3.6% as at 31 March 2023.

Recent interest rate hikes are unhelpful for our investment return as they increase the cost of our overdraft facility. However, the gap between the interest rate we pay for this overdraft facility and the dividend yield we earn on the portfolio, while narrower than it was a year ago, remains very wide by historical standards at almost 300 percentage points at the time of writing.

Our focus remains on achieving the priorities set out by the Board at the time of Covid crisis. The Board emphasised that our first priority should be to build a portfolio that could deliver sufficient income to cover the dividend. This was achieved last September for the first time for two years. We continue to position the portfolio with the intention of achieving the Board’s objectives of covering the dividend, delivering dividend growth in excess of inflation over the cycle and rebuilding reserves. We see the focus on portfolio income as consistent with our investment process which favours companies whose cash flow and dividend potential are not priced in by the market.

For the wider UK equity market, the outlook for dividends has improved significantly since the pandemic, with dividend cover recovering to just over 2 times (on a 12-month forward basis), suggesting some cushion for corporates in the event that macro conditions deteriorate. We also have the advantage of selecting from a broad palette of UK stocks, with many different earnings drivers. This helps to underpin our confidence in the continued progression of our dividend per Ordinary share in FY23.

Portfolio Performance

The Company’s net asset value (“NAV”) total return was 3.3% for the period. This was behind the total return of 12.3% from the Company’s Reference Index and the AIC sector's weighted average NAV total return.

Sharp swings in the macro landscape caused some major reversals in performance, with many of last year’s leading stocks and sectors becoming laggards. The drivers of our performance over the period can be summarised as follows:

- The main detractor from performance was the heavy weighting in Energy at a time of falling energy prices due to a rebuilding in gas storage levels and an unseasonably mild winter. The weakest performers were **Thungela Resources** and **Diversified Energy** which reversed the gains they had made in the previous six months. Both companies remain highly cash generative even at lower energy prices. Despite the benefit of our large holding in **BP**, this sector alone detracted around 4.5% of relative performance.

- Within Financials, encouraging results from insurance underwriter **Conduit** and lenders **OSB and International Personal Finance** were offset by profit warnings from **CMC Markets**, **Close Brothers** and **Direct Line**. Among large cap financials, the contribution from owning **NatWest** was offset by not owning **HSBC** or **Prudential** as sentiment towards Asian stocks improved following the reopening of the Chinese economy. Overall, this sector detracted around 2% of relative performance.
- Performance was varied within Consumer and Industrial sectors. Improving sentiment towards the UK housing market helping to drive positive contributions from housebuilders **Vistry** and **Bellway** and sofa retailer **DFS**. The portfolio also benefited from its underweight in Consumer Staples, in particular not owning **Unilever** and **Reckitt Benckiser**. However, this was offset by concerns about a slowdown in demand at paper business **Mondi,** law firm **DWF** and plant hire firm **Speedy Hire**. In aggregate, these sectors detracted around 1.7% of performance.
- The gearing position, averaging 14.9% over the six months, added around 1.7% of relative performance.

As noted in the Market Review, the continued outperformance of large-cap stocks was an unwelcome drag on performance given the portfolio's relatively heavy weightings in small and mid-cap stocks; itself a function of the index-agnostic approach that we use in constructing the portfolio. This approach involves sizing our positions according to our conviction levels, rather than anchoring around index weightings. Consequently our portfolio's exposure to the FTSE 100 Index was 49% at the end of the period, whereas the FTSE 100 Index represented 84% of the total value of the FTSE All-Share Index. The recent series of macro events, notably Covid and Ukraine, have favoured large-caps, causing a headwind for our portfolio. As macro-economic uncertainty recedes, we would expect investors to become more inclined to consider owning stocks further down the market cap spectrum. We remain convinced that a differentiated portfolio, containing a wide range of stocks across the UK market, positions us best to generate a diversified income stream and deliver on our objectives through the cycle.

Activity

Purchases

The market backdrop has continued to be influenced by expectations over the path for inflation and interest rates. Greater stability in domestic politics has been helpful, reducing the risk premium that was being applied to UK assets. This has allowed investors to shift their focus onto economic data, in particular the ability of policy-makers to bring inflation under control without precipitating a recession. It is against this backdrop that we have been positioning the portfolio.

We have continued to focus our purchases in companies with strong cash flows, enabling them to trade well through an inflationary period:.

- **National Grid**: We added to National Grid whose UK business benefits from inflation-linked contracts, at the same time as their regulatory asset base starts to grow rapidly to deliver the infrastructure necessary for the transition to electric vehicles. The stock had fallen sharply at the time of the Truss mini-budget due to its correlation with government bonds, providing us with an opportunity to add to our holding.
- **NatWest**: We also added to NatWest which we expected to benefit from rising base rates, as net interest income grows thanks to the stickiness of deposit pricing. Despite the sharp slowdown in economic growth, we expect bad debts to remain low, with significant impairment provisions already taken. As with National Grid, this opportunity arose at the time of the Truss mini-budget. We have subsequently seen a narrowing in the stock's discount to NAV.
- **Vanquis**: We bought a new holding in Vanquis Banking Group (formerly known as Provident Financial) where we see evidence of improving returns, robust credit quality and accelerating loan growth as demand picks up and competition reduces. The stock's low valuation appears to reflect historic perceptions of the business, after a long period of restructuring, rather than analysis of the group's forward-looking earnings potential. We see this stock as a classic example of our investment approach, anticipating positive change that has not yet been priced in.

- **Oil & Gas**: We increased our exposure to the Energy sector, adding to **Diversified Energy** in a placing to fund an earnings accretive acquisition which supports cash flows and dividends. The valuation paid was 2.3x EBITDA which appears highly attractive. The assets they are buying include existing wells and undeveloped wells, providing additional production potential. We also added to our holding in **Ithaca Energy**, whose huge cash generation sets the scene for attractive dividends. We expect Ithaca's heavy investment in the North Sea to provide it with significant up-front tax breaks, mitigating the Energy Profits Levy.

Sales

Our largest sales can be grouped into the following categories:

- **Managing position sizes within Resources**: After very strong performance linked to the surge in energy prices after Russia's invasion of Ukraine, we took some profits in **Thungela Resources**, **Glencore** and **BP**. We also trimmed our weightings in **Rio Tinto** and **BHP** where weakness in the Chinese construction sector created a difficult backdrop for their main commodity, iron ore. We continue to have conviction in the cash generation potential of these businesses, but are mindful that their position sizes had reached very high levels.
- **Trimming some lower yielding stocks**: We reduced our weightings in lower yielding stocks **Coca-Cola Hellenic** and **Standard Chartered**, seeing more attractive income opportunities elsewhere in the UK market.
- **DS Smith**: The business has proved resilient during a turbulent period for the global economy, but we are aware that it may prove difficult to avoid the slowdown being reported by some sector peers.
- **GlaxoSmithKline**: We sold our holding in GlaxoSmithKline where we see a relatively weak drugs pipeline with limited scope for any meaningful catalysts to drive a re-rating in the shares. The dividend was cut in 2022 after the spin-off of its consumer health business.

Outlook

The fluctuating macro landscape has created some sharp swings in performance within the UK equity market during the period. Although markets went up during the six months, there was an underlying tone of caution, as reflected in the continued out-performance of large cap stocks. This was largely driven by the ever-present fear that recession could be imminent. Many commentators pointed to the inversion in the yield curve (where long-dated bond yields fall below short-dated bond yields) as a forward-looking indicator that recession is likely at some point in the next two years.

Against this uncertain backdrop, our approach remains to stay focused on companies that have the ability to generate strong cash flows and pay these cash flows out in the form of dividends. We believe that many companies with these characteristics have been overlooked by the wider market in recent years, resulting in valuation opportunities. Historically dividends have tended to represent a relatively high proportion of total return, especially when investors shift their focus from growth stocks to value and income stocks. We have consciously tilted the portfolio towards stocks that offer a high free cash flow yield, underpinning an attractive dividend yield. The portfolio has a 9.2% free cash flow yield (12 month trailing, median) which compares favourably with the 5.7% free cash flow yield of the FTSE All-Share ex Investment Trusts Index. As a result, we remain confident in the outlook for portfolio income, putting us on track to pay a fully covered dividend in the 12 months to September 2023, extending our 22 year track record of consecutive dividend increases.

On the capital account, we remain positive on the prospects for our portfolio. At the annual results we outlined how we had segmented the portfolio into three baskets, each of which is intended to play a role in helping the portfolio to deliver each element of our investment objective:

1. **Inflation Protection**: Stocks with inflation hedge characteristics; potentially see some earnings benefit from rising prices, helping them to grow their cash flows and dividends. Examples include Shell and National Grid. At the time of writing, this basket represented 41% of the portfolio. Objective: achieve real growth in income.
2. **Mispriced Yield**: Higher yield stocks where we see resilient business models, enabling the dividends to be paid, contrary to market expectations. Examples include Legal & General and Diversified Energy. At the time of writing, this basket represented 26% of the portfolio. Objective: achieve above average income.
3. **Latent Growth**: Stocks with the potential to deliver operational change that can drive medium-term growth. This change is often overlooked by the market at times of macro uncertainty. Examples include OneSavings Bank and DFS. At the time of writing, this basket represented 33% of the portfolio. Objective: achieve real growth in capital.

The market backdrop that we experienced during the period was challenging for our portfolio, as recession fears held back the performance of many of our holdings across all three baskets. In particular, falling commodity prices caused some of our large Resources holdings to give back their gains, while many of our more cyclical small and mid-cap holdings remained out of favour.

Looking ahead, we see several reasons to remain confident in the outlook for the portfolio:

- **Low valuations**: Recent market movements have only increased our conviction in the valuation re-rating potential of the portfolio, with a price/earnings ratio at 9.5x and the price/book ratio at 1.2x both at a meaningful discount to the FTSE All-Share Index despite returns that are in line with the wider market (return on equity of 11.6%, median). Since the period-end, one of our holdings, Industrials REIT, has received a bid from Blackstone at a 42% premium, underlining the scale of the valuation upside within the portfolio. These low valuations primarily reflect recession fears, rather than operational issues.
- **Company resilience**: If and when recession strikes, we believe that our holdings will generally be well positioned. This has been one of the most anticipated recessions in history, with the US yield curve having been inverted since July 2022. This has given management teams plenty of time to adjust their businesses, taking self-help measures to ensure that they are not caught off guard. For example, lenders such as NatWest have taken steps to tighten lending standards, building in highly conservative assumptions into their lending decisions, thereby minimising the risk of bad debts down the line. Recent economic data has surprised on the upside, suggesting that the market's fears might have been exaggerated, at least for now. Assuming that recession does eventually strike, we are reassured by the high level of dividend cover of the portfolio at 1.8x (12 month trailing, median) and the modest level of balance sheet gearing, with net debt/EBITDA at 1.3x (12 month trailing, median).
- **Geographical diversification**: The portfolio is well diversified in terms of the source of revenues by geographical region, with 59% coming from outside the UK. The war in Ukraine has driven different outcomes from region to region according to the impact on terms of trade resulting from differences in energy security and sanctions. In general, Emerging Markets have had a far better crisis than Europe. This reduces the risk of a synchronised global recession which would be a worst-case scenario for the portfolio.

Investment Manager's Review

Continued

- **Low probability of reverting to era of zero rates**: Inflation is set to fall back through the course of 2023 thanks to base effects one year after the start of the Ukraine war, particularly in relation to energy prices. This is raising hopes that interest rates are approaching their peak level, but tight labour markets are likely to cause monetary policy setting to remain tight in order to bring down core inflation. Just as loose monetary policy was a boon for highly-valued growth stocks, we expect an era of elevated interest rates to favour the more traditional cash-generative stocks that our investment process favours. One clear example is the transformation in interest income prospects for many of our Financials holdings. This will not be a linear path, as interest rate expectations wax and wane from quarter to quarter, but overall we expect this to be a favourable environment for the portfolio, helping to support both income and capital growth.

The UK stands out within global stock markets as offering a rich seam of dividend payouts. We see this as a mark of strength as it reflects rigorous corporate governance standards, disciplined capital allocation and robust cash generation. Having come through recent crises, we believe that our portfolio holdings have demonstrated a level of resilience that is not reflected in their valuations. We see potential for share prices to respond to further evidence of resilience in cash flows and dividends in the months ahead, helping us to deliver for shareholders.

Thomas Moore
Portfolio Manager
15 May 2023

Ten Largest Investments

As at 31 March 2023

BP

BP is an oil and petrochemicals company. The Company explores for and produces oil and natural gas, refines, markets, and supplies petroleum products, generates renewable energy, and manufactures and markets chemicals.

Shell

Shell explores for, produces and refines petroleum. The Company produces fuels, chemicals, and lubricants, as well as operating gasoline filling stations and developing renewable energy.

National Grid

National Grid is a utility company which is focused on the transmission and distribution of electricity and gas in Great Britain and the United States.

NatWest Group

NatWest operates as a banking and financial services company. The Bank is the largest business and commercial bank in the UK, with a leading retail business, providing a comprehensive range of lending and savings products.

SSE

SSE engages in the generation, transmission, distribution and supply of electricity and the production, storage, distribution and supply of gas.

Diversified Energy

Diversified Energy is engaged in conventional natural gas and crude oil production in the Appalachian Basin of the United States.

Imperial Brands

Imperial Brands is a global consumer goods company that manufactures, markets and distributes tobacco products across approximately 120 markets.

Glencore

Glencore is a diversified natural resources company, with production and marketing operations in three groups; metals and minerals, energy products and agricultural products.

Barclays

Barclays is a global financial services provider engaged in retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services.

Thungela Resources

Thungela is a leading pure-play producer and exporter of high quality, low-cost thermal coal in South Africa.

Investment Portfolio

At 31 March 2023

Company	Sector	Market value £'000	Market value %
BP	Oil Gas and Coal	11,230	6.3
Shell	Oil Gas and Coal	8,552	4.8
National Grid	Gas Water and Multi-utilities	6,195	3.4
NatWest Group	Banks	5,812	3.2
SSE	Electricity	5,766	3.2
Diversified Energy	Oil Gas and Coal	5,588	3.1
Imperial Brands	Tobacco	5,530	3.1
Glencore	Industrial Metals and Mining	5,229	2.9
Barclays	Banks	4,972	2.8
Thungela Resources	Oil Gas and Coal	4,772	2.7
Top ten investments		**63,646**	**35.5**
BHP	Industrial Metals and Mining	4,576	2.6
Close Brothers	Banks	4,318	2.4
Chesnara	Life Insurance	4,105	2.3
Vistry	Household Goods and Home Construction	3,974	2.2
Anglo American	Industrial Metals and Mining	3,888	2.2
OSB Group	Finance and Credit Services	3,808	2.1
CMC Markets	Investment Banking and Brokerage Services	3,586	2.0
British American Tobacco	Tobacco	3,447	1.9
Rio Tinto	Industrial Metals and Mining	3,429	1.9
Playtech	Travel and Leisure	3,383	1.9
Top twenty investments		**102,160**	**57.0**

At 31 March 2023

Company	Sector	Market value £'000	Market value %
Legal & General	Life Insurance	3,276	1.8
Mondi	General Industrials	3,148	1.8
BAE Systems	Aerospace and Defence	3,055	1.7
Tyman	Construction and Materials	2,744	1.5
Vanquis Banking Group	Finance and Credit Services	2,682	1.5
Conduit Holdings	Non-life Insurance	2,538	1.4
DFS Furniture	Retailers	2,531	1.4
Randall & Quilter	Non-life Insurance	2,488	1.4
Hargreaves Lansdown	Investment Banking and Brokerage Services	2,400	1.3
Petershill Partners	Investment Banking and Brokerage Services	2,237	1.3
Top thirty investments		**129,259**	**72.1**
Hiscox	Non-life Insurance	2,233	1.2
Industrials REIT	Real Estate Investment Trusts	2,184	1.2
TP ICAP	Investment Banking and Brokerage Services	2,103	1.2
Real Estate Investors	Real Estate Investment Trusts	2,095	1.2
Premier Miton	Investment Banking and Brokerage Services	1,984	1.1
DWF Group	Industrial Support Services	1,977	1.1
Centamin	Precious Metals and Mining	1,928	1.1
Ashmore	Investment Banking and Brokerage Services	1,927	1.1
International Personal Finance	Finance and Credit Services	1,842	1.0
LondonMetric	Real Estate Investment Trusts	1,836	1.0
Top forty investments		**149,368**	**83.3**

Investment Portfolio
Continued

At 31 March 2023

Company	Sector	Market value £'000	Market value %
Diageo	Beverages	1,829	1.0
Galliford Try	Construction and Materials	1,796	1.0
Speedy Hire	Industrial Support Services	1,698	0.9
Standard Chartered	Banks	1,672	0.9
Phoenix	Life Insurance	1,666	0.9
Bellway	Household Goods and Home Construction	1,649	0.9
Hays	Industrial Support Services	1,627	0.9
Litigation Capital	Investment Banking and Brokerage Services	1,578	0.9
Intermediate Capital Group	Investment Banking and Brokerage Services	1,546	0.9
Coca-Cola HBC	Beverages	1,543	0.9
Top fifty investments		**165,972**	**92.5**
Vodafone	Telecommunications Service Providers	1,523	0.8
AstraZeneca	Pharmaceuticals and Biotechnology	1,327	0.7
CLS Holdings	Real Estate Investment and Services	1,227	0.7
Ithaca Energy	Oil Gas and Coal	1,205	0.7
Direct Line Insurance	Non-life Insurance	1,201	0.7
Quilter	Investment Banking and Brokerage Services	1,177	0.6
Bridgepoint	Investment Banking and Brokerage Services	1,154	0.6
Harbour Energy	Oil Gas and Coal	1,026	0.6
Smith(DS)	General Industrials	999	0.6
Halfords	Retailers	998	0.6
Top sixty investments		**177,809**	**99.1**
Energean	Oil Gas and Coal	845	0.5
AssetCo	Investment Banking and Brokerage Services	648	0.4
Total portfolio		**179,302**	**100.0**

Investment Case Studies

Conduit

Conduit is a reinsurance underwriting business based in Bermuda, operating in the property & casualty and specialty sectors. Conduit launched in December 2020 following the completion of their IPO on the London Stock Exchange. We took part in the IPO, being attracted by track record of the management team and the potential for this start-up to take advantage of an upturn in the reinsurance underwriting market. We subsequently added to our holding in November 2022 after the stock had fallen below its book value, at which time we felt that the business's growth potential was not being effectively priced in.

Conduit's name is apt, as it is a channel to bring capital into the reinsurance market during a period of potentially attractive returns on equity. There is a shortage of underwriting capital – a situation that insurers call a 'hard market' – as existing market participants have deployed less capital due to several years of large catastrophe losses (from various weather events such as hurricanes) and the inflationary impact of COVID-19. The underwriting cycle can play out over a prolonged period of time as over-capacity causes losses that force insurers to exit in order to repair their balance sheets. New vehicles such as Conduit can emerge at this point in the cycle, as they did in 2001 and 2005, as they can benefit from higher pricing without having the baggage of losses in their existing books.

In order to be able to launch a reinsurance business from scratch, it is important to have an experienced management team with a proven track record. The Chairman, Neil Eckert, has four decades of experience in the insurance sector. Over this time, he has been a serial entrepreneur, founding four businesses, including Brit Insurance and Climate Exchange both of which were subsequently taken over. Conduit's Chief Executive, Trevor Carvey, also has a strong reputation of building out insurance businesses. They built a team of underwriters who used their existing relationships with brokers to put the capital raised in the IPO to work in the reinsurance market, working alongside established leads such as Swiss Re or Munich Re.

In terms of ESG, Conduit recognises that climate risk is an integral aspect of their business and the wider sector, with the potential to impact their own underwriting portfolio and the businesses and communities that their reinsurance protects. Increasing frequency and severity of climate-related claims makes it in Conduit's commercial interest to support activities that slow or reverse climate change and/or protect against its impact. In their ESG report, Conduit have set out the actions they are taking to help provide protection against the impact of climate change, both directly and indirectly.

Now in its third year after IPO, Conduit has built a sufficiently large and diversified book as to move into profitability, with analysts projecting a return on equity in the mid-high teens. This is not priced into the valuation of the stock, with the shares trading at around their book value. Our confidence in based on Conduit's commitment to allocate capital efficiently where the most attractive opportunities lie, alongside growing evidence that Conduit is reaching maturity just as the reinsurance market hits a sweet spot. In the meantime, we are picking up a dividend yield of over 6%, making this a holding with both income and capital growth potential.

Investment Case Studies

Continued

Industrials REIT

Industrials REIT is a real estate investment trust with a focus on providing space for small and medium sized enterprises through the development of serviced industrial spaces. The business has its roots as a South African property investment and fund management vehicle founded by CEO Paul Arenson in 1995. The business was relisted in London in 2018 and converted to a UK REIT.

Strategically a major pivot was the management team's decision to become a dedicated owner of multi-let industrial assets, seeing this as an attractive area offering a growing rental income, along with the provision of ancillary services to tenants made possible through an improved operating platform.

The supply of industrial real estate in the UK is low, partly because developers will tend to favour alternative uses such as residential. Build costs have been rising significantly in the past decade, meaning that the replacement cost of their portfolio would be meaningfully higher. The lack of new industrial space, alongside growing industrial demand as more SMEs seek the space to develop their businesses, is helping to support a growing rental stream.

In terms of ESG, we have engaged with the management team on emissions and energy management which we have seen as a key risk for the business. The portfolio is typically comprised of single storey shed-like buildings, with a relatively low EPC energy rating. The management team have set about upgrading their least efficient buildings, aiming to upgrade the F- and G-rated assets to at least an E by mid-2023 and getting all their buildings to a C-rating by 2027 and a B-rating by 2030. Upgrading the estate will require a combination of re-testing, new LED lighting, better roofing and new heating systems. Furthermore, where they have upgraded their buildings they have typically unlocked a significant rental uplift, demonstrating that a staunch commitment to ESG can also deliver financial benefits.

We bought into the stock in March 2021, encouraged by evidence of pro-active change. We added to our holding between October 2022 and February 2023 after the stock had fallen due to interest rate and recession fears. While it is logical that higher interest rates would drive down property values, we saw enough idiosyncratic strengths to justify adding to our holding, especially after the stock had slumped to a significant discount to its book value.

We had previously owned Hansteen, also a UK industrial real estate business, until its takeover by Blackstone in 2020. We saw Industrials REIT as a business that shared some of Hansteen's characteristics, being a well-managed platform specialising in this growing area of the real estate market. Only three years after acquiring Hansteen, and after the end of the period under review, Blackstone announced the acquisition of Industrials REIT in April 2023 at a 41% premium to the share price on the day before the announcement . We see this as a good example of our ability to use our accumulated knowledge of a sector to identify off-the-beaten-track businesses whose valuations do not fully capture their potential.

Condensed Statement of Comprehensive Income (unaudited)

		Six months ended 31 March 2023			Six months ended 31 March 2022		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments at fair value		**–**	**2,174**	**2,174**	–	815	815
Income	2	**4,705**	**–**	**4,705**	4,696	–	4,696
Investment management fee		**(156)**	**(365)**	**(521)**	(176)	(411)	(587)
Administrative expenses		**(250)**	**–**	**(250)**	(209)	–	(209)
Net return before finance costs and taxation		**4,299**	**1,809**	**6,108**	4,311	404	4,715
Finance costs		**(167)**	**(391)**	**(558)**	(56)	(131)	(187)
Return before taxation		**4,132**	**1,418**	**5,550**	4,255	273	4,528
Taxation	3	**(57)**	**–**	**(57)**	(53)	–	(53)
Return after taxation		**4,075**	**1,418**	**5,493**	4,202	273	4,475
Return per Ordinary share (pence)	4	**8.60**	**2.99**	**11.59**	8.75	0.58	9.33

The "Total" column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Condensed Statement of Comprehensive Income.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the financial statements.

Condensed Statement of Financial Position (unaudited)

	Notes	As at 31 March 2023 £'000	As at 30 September 2022 £'000
Fixed assets			
Investments at fair value through profit or loss		**179,302**	179,730
Current assets			
Debtors		**1,980**	2,343
Money-market funds		**1,606**	2,503
Cash and short-term deposits		**251**	1,054
		3,837	5,900
Creditors: amounts falling due within one year			
Bank loan		**(24,993)**	(24,979)
Other creditors		**(1,248)**	(3,152)
		(26,241)	(28,131)
Net current liabilities		**(22,404)**	(22,231)
Net assets		**156,898**	157,499
Capital and reserves			
Called-up share capital	6	**12,295**	12,295
Share premium account		**52,043**	52,043
Capital redemption reserve		**12,616**	12,616
Capital reserve	7	**71,379**	70,276
Revenue reserve		**8,565**	10,269
Equity Shareholders' funds		**156,898**	157,499
Net asset value per Ordinary share (pence)	8	**331.21**	331.77

The financial statements on pages 21 to 28 were approved by the Board of Directors and authorised for issue on 15 May 2023 and were signed on its behalf by:

Sarika Patel

Chair

Statement of Changes in Equity (unaudited)

Six months ended 31 March 2023

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 September 2022		12,295	52,043	12,616	70,276	10,269	157,499
Return after taxation		–	–	–	1,418	4,075	5,493
Purchase of own shares for treasury	6	–	–	–	(315)	–	(315)
Dividends paid	5	–	–	–	–	(5,779)	(5,779)
Balance at 31 March 2023		12,295	52,043	12,616	71,379	8,565	156,898

Six months ended 31 March 2022

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 September 2021		12,295	52,043	12,616	97,491	8,486	182,931
Return after taxation		–	–	–	273	4,202	4,475
Dividends paid	5	–	–	–	–	(5,284)	(5,284)
Balance at 31 March 2022		12,295	52,043	12,616	97,764	7,404	182,122

Notes to the Financial Statements

For the year ended 31 March 2023

1. Accounting policies

Basis of accounting. The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 (Interim Financial Reporting) and with the Statement of Recommended Practice (SORP) for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued in July 2022 (The AIC SORP). They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The interim financial statements have been prepared using the same accounting policies as the preceding annual financial statements.

2. Income

	Six months ended 31 March 2023 £'000	Six months ended 31 March 2022 £'000
Income from investments		
UK investment income		
Ordinary dividends	**3,579**	3,615
Special dividends	**101**	44
	3,680	3,659
Overseas and Property Income Distribution investment income		
Ordinary dividends	**852**	1,037
	852	1,037
Total income from investments	**4,532**	4,696
Other income		
Money-market interest	**20**	–
Stock dividends	**152**	–
Bank interest	**1**	–
Total other income	**173**	–
Total income	**4,705**	4,696

3. Taxation

The taxation charge for the period, and the comparative period, represents withholding tax suffered on overseas dividend income.

4. Return per Ordinary share

	Six months ended 31 March 2023 p	Six months ended 31 March 2022 p
Revenue return	**8.60**	8.75
Capital return	**2.99**	0.58
Total return	**11.59**	9.33

The figures above are based on the following figures:

	Six months ended 31 March 2023 £'000	Six months ended 31 March 2022 £'000
Revenue return	**4,075**	4,202
Capital return	**1,418**	273
Total return	**5,493**	4,475
Weighted average number of Ordinary shares in issue[A]	**47,391,568**	48,033,474

[A] Calculated excluding shares in treasury.

5. Dividends

	Six months ended 31 March 2023 £'000	Six months ended 31 March 2022 £'000
Ordinary dividends on equity shares deducted from reserves:		
Final dividend for 2022 of 6.50p per share (2021 - 5.60p)	**3,079**	2,690
First interim dividend for 2023 of 5.70p per share (2022 - 5.40p)	**2,700**	2,594
	5,779	5,284

Notes to the Financial Statements

Continued

6. Called-up share capital

	As at 31 March 2023 £'000	As at 30 September 2022 £'000
Issued and fully paid:		
Ordinary shares 25p each		
Opening balance of 47,471,939 (2022 – 48,033,474) Ordinary shares	**11,868**	12,009
Buyback of 100,417 (2022 – 561,535) Ordinary shares	**(25)**	(141)
Closing balance of 47,371,522 (2022 – 47,471,939) Ordinary shares	**11,843**	11,868
Treasury shares		
Opening balance of 1,706,828 (2022 – 1,145,293) Ordinary shares	**427**	286
Buyback of 100,417 (2022 – 561,535) Ordinary shares	**25**	141
Closing balance of 1,807,245 (2022 – 1,706,828) Ordinary shares	**452**	427
	12,295	12,295

During the period, 100,417 Ordinary shares (2022 – 561,535) were repurchased for a consideration of £315,000 (2022 – £1,806,000). The total shares held in Treasury is 1,807,245 (2022 – 1,706,828).

7. Capital reserve

The capital reserve figure reflected in the Condensed Statement of Financial Position includes investment holdings losses at 31 March 2023 of £12,307,000 (30 September 2022 – £15,330,000) which relate to the revaluation of investments held on that date and realised gains as at 31 March 2023 of £83,686,000 (30 September 2022 – £85,606,000).

8. Net asset value per Ordinary share

	As at 31 March 2023	As at 30 September 2022
Attributable net assets (£'000)	**156,898**	157,499
Number of ordinary shares in issue[A]	**47,371,522**	47,471,939
NAV per ordinary share (p)	**331.21**	331.77

[A] Excludes shares in issue held in treasury.

9. Transaction costs

During the period expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Condensed Statement of Comprehensive Income. The total costs were as follows:

	Six months ended 31 March 2023 £'000	Six months ended 31 March 2022 £'000
Purchases	**83**	118
Sales	**12**	16
	95	134

10. Loans

On 28 June 2021, the Company agreed a two year £30 million revolving credit facility with the Royal Bank of Scotland International Limited, which has a maturity date of 25 June 2023.

At 31 March 2023, £25,000,000 had been drawn down (30 September 2022 – £25,000,000) at an all-in interest rate of 5.0271% (30 September 2022 – all-in interest rate of 2.791 %).

The loan is shown in the Condensed Statement of Financial Position net of amortised expenses of £7,000 (30 September 2022 – £21,000).

11. Fair value hierarchy

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (ie as prices) or indirectly (ie derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Company's investments are in quoted equities (30 September 2022 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments has therefore been deemed as Level 1 (30 September 2022 - same).

12. Half Yearly Report

The financial information contained in this Half Yearly Report does not constitute statutory accounts as defined in Sections 434-436 of the Companies Act 2006. The financial information for the six months ended 31 March 2023 and 31 March 2022 have not been audited.

The information for the year ended 30 September 2022 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006.

This Half Yearly Report was approved by the Board on 15 May 2023.

Glossary of Terms

AIC
The Association of Investment Companies.

Alternative Performance Measures
Numerical measures of the Company's current, historical or future performance, financial position, other than the financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS102 and the AIC SORP.

Capital Return
The realised and unrealised gains and losses of the investment portfolio net of costs, interest and tax of the Company that have been allocated to capital.

Closed-End Investment Company
A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.

Discount and Premium
A discount is the percentage by which the market price per share of an investment trust is lower than its Net Asset Value (NAV) per share. A premium is the percentage by which the market price per share of an investment trust exceeds its NAV per share.

Dividend Cover
Revenue return per share divided by dividends per share expressed as a ratio.

Dividend Yield
The annual dividend expressed as a percentage of the share price.

EBITDA
EBITDA, or earnings before interest, taxes, depreciation, and amortisation, is an alternate measure of profitability to net income. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by a company's operations.

ESG
Environmental, social and governance (ESG) factors, which are considered in all investment decisions.

Ex-dividend date ("XD date")
The day before the Record Date. The XD date is normally about a month before the dividend is paid.

Index
A market index calculates the average performance of its constituents, normally on a weighted basis. It provides a means against which the performance of individual instruments can be assessed.

Market Capitalisation
The latest price of an Ordinary share multiplied by the number of shares in issue.

Net Gearing
Net gearing measures the total borrowings less cash and cash equivalents divided by Shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes amounts due from and to brokers at the period end as well as cash and short-term deposits.

Net Asset Value, NAV or Shareholders' Funds
The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The Net Asset Value (NAV) divided by the number of shares in issue produces the NAV per share.

Ongoing Charges Ratio
Ratio of total expenses as a percentage of average daily Shareholders' funds calculated as per the AIC's industry standard method.

Price/Earnings Ratio
This is calculated by dividing the market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

Glossary of Terms

Continued

Realised Gains / Losses
The profit / loss on the sale of investments during the year.

Record Date
The date when an investor needs to be holding a share in order to qualify for a forthcoming dividend.

Relative Performance
Performance of the Company relative to the FTSE All-Share Index.

Revenue Return
The net income from dividends and interest received, after costs, interest and tax allocated to revenue, divided by the weighted average number of shares in issue during the year.

Total Assets
Total assets less current liabilities (before deducting Prior Charges) as per the Statement of Financial Position.

Total Return
The theoretical return arrived at by reinvesting each dividend in additional shares in the Company on the day that the shares go ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the ex-dividend date.

Unrealised Gains / Losses
The profit / loss on the revaluation of the investment portfolio at the end of the period.

Alternative Performance Measures ("APMs")

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS 102 and the AIC SORP.

The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Where the calculation of an APM is not detailed within the financial statements, an explanation of the methodology employed is provided below:

Dividend yield

Dividend yield measures the dividend per share as a percentage of the share price per share.

	31 March 2023	30 September 2022
Share price	**331.50p**	302.50p
Dividend per share	**22.80p**	22.70p
Dividend yield	**6.9%**	7.5%

Premium & discount

A discount is the percentage by which the market price of an investment trust is lower than the Net Asset Value ("NAV") per share. A premium is the percentage by which the market price per share of an investment trust exceeds the NAV per share.

	31 March 2023	30 September 2022
Share price	**331.50p**	302.50p
Net asset value per share	**331.21p**	331.77p
Premium/(Discount)	**0.1%**	(8.8%)

Alternative Performance Measures ("APMs")

Continued

Net gearing

Net gearing measures the total borrowings less cash and cash equivalents divided by Shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes amounts due from and to brokers at the period end as well as cash and short-term deposits.

		31 March 2023 £'000	30 September 2022 £'000
Total borrowings	a	**24,993**	24,979
Cash and short-term deposits		**251**	1,054
Investments in AAA-rated money-market funds		**1,606**	2,503
Amounts due from brokers		**351**	9
Amounts payable to brokers		**(411)**	(2,247)
Total cash and cash equivalents	b	**1,797**	1,319
Gearing (borrowings less cash & cash equivalents)	c=(a-b)	**23,196**	23,660
Shareholders' funds	d	**156,898**	157,499
Net gearing	e=(c/d)	**14.8%**	15.0%

Ongoing charges ratio

The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC, which is defined as the total of investment management fees and recurring administrative expenses and expressed as a percentage of the average net assets throughout the period. The ratio reported for 31 March 2023 is based on forecast ongoing charges for the year ending 30 September 2023.

		31 March 2023 £'000	30 September 2022 £'000
Investment management fees		**1,044**	1,117
Administrative expenses		**474**	464
Less: non-recurring charges[A]		**(1)**	(42)
Ongoing charges	a	**1,517**	1,539
Average net assets	b	**162,001**	178,283
Ongoing charges ratio (excluding look-through costs)	c=(a/b)	**0.94%**	0.86%
Look-through costs[B]	d	**0.04%**	0.05%
Ongoing charges ratio (including look-through costs)	e=c+d	**0.98%**	0.91%

[A] Comprises professional fees not expected to recur.
[B] Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations, which also includes financing and transaction costs.

Total return

NAV and share price total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. Share price and NAV total returns are monitored against open-ended and closed-ended competitors, and the Reference Index, respectively.

Six months ended 31 March 2023		NAV	Share Price
Opening at 1 October 2022	a	**331.77p**	**302.50p**
Closing at 31 March 2023	b	**331.21p**	**331.50p**
Price movements	c=(b/a)-1	**(0.2%)**	**9.6%**
Dividend reinvestment[A]	d	**3.5%**	**3.9%**
Total return	c+d	**+3.3%**	**+13.5%**

Year ended 30 September 2022		NAV	Share Price
Opening at 1 October 2021	a	**380.84p**	349.00p
Closing at 30 September 2022	b	**331.77p**	302.50p
Price movements	c=(b/a)-1	**(12.9%)**	(13.3%)
Dividend reinvestment[A]	d	**5.3%**	5.5%
Total return	c+d	**(7.6%)**	(7.8%)

[A] NAV total return involves investing the net dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return involves reinvesting the net dividend in the share price of the Company on the date on which that dividend goes ex-dividend.

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Investor Information

Alternative Investment Fund Managers Directive ("AIFMD") and Pre-Investment Disclosure Document ("PIDD")

The Company has appointed abrdn Fund Managers Limited as its Alternative Investment Fund Manager and BNP Paribas Securities Services, London Branch as its depositary under the AIFMD.

The AIFMD requires abrdn Fund Managers Limited, as the Company's AIFM, to make available to investors certain information prior to such investors' investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website: **www.abrdnequityincome.com.**

Investor Warning: Be alert to share fraud and boiler room scams

abrdn is aware that some investors have received telephone calls and emails from people, purporting to work for abrdn or third party firms, who have offered to buy their investment company shares. abrdn has also been notified of emails claiming that certain investment companies under their management have issued claims in the courts against individuals.

These may be scams which attempt to gain personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for their shares. These callers/senders do not work for abrdn and any third party making such offers/claims has no link with the abrdn. abrdn never makes these types of offers and does not 'cold-call' investors in this way. If investors have any doubt over the veracity of a caller, they should not offer any personal information, end the call and contact abrdn's investor services centre using the details provided in the section entitled "Keeping You Informed".

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams at: **fca.org.uk/consumers/scams.**

Shareholder Enquiries

For queries regarding shareholdings, lost certificates, dividend payments, registered details and related matters, Shareholders holding their shares directly in the Company are advised to contact the Registrars. Changes of address must be notified to the Registrars in writing.

Any general queries about the Company should be directed to the Company Secretaries in writing (see Corporate Information) or by email to: **cef.cosec@abrdn.com.**

For questions about an investment held through the abrdn Investment Plan for Children, Investment Trust Share Plan or Investment Trust Stocks and Shares ISA, please telephone the Manager's Customer Services Department on **0808 500 0040**, email **invtrusts.co.uk** or write to abrdn Investment Trusts, PO Box 11020, Chelmsford Essex CM99 2DB.

Dividend Tax Allowance

The annual tax-free personal allowance for dividend income for UK investors is £1,000 for the 2023/24 tax year (2022/23: £2,000). Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered Shareholders with a confirmation of dividends paid and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the Shareholder's responsibility to include all dividend income when calculating any tax liability.

How to Invest

Individual investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, shares can be bought directly through the abrdn Investment Plan for Children, abrdn Share Plan or abrdn ISA, or through the many stockbroker platforms which offer the opportunity to acquire shares in investment companies.

abrdn Investment Plan for Children

abrdn operates an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

abrdn Investment Trust Share Plan

abrdn operates runs an Investment Trust Share Plan (the "Share Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Share Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

abrdn Investment Trust ISA

abrdn operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the tax year 2023/2024.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases where applicable. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the ISA prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the ISA, from the sale of investments held in the ISA. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

Investors can choose to transfer previous tax year investments to abrdn, which can be invested in the Company while retaining their ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Nominee Accounts and Voting Rights

In common with other schemes of this type, all investments in the abrdn Share Plan, Investment Trust ISA or Investment Plan for Children are held in nominee accounts and investors have full voting and other rights of share ownership.

Keeping You Informed

Further information about the Company may be found on its dedicated website: **www.abrdnequityincome.com**.

This provides access to information on the Company's share price performance, capital structure, London Stock Exchange announcements, current and historic Annual and Half Yearly Reports, and the latest monthly factsheet on the Company issued by the Manager.

Details are also available at: **invtrusts.co.uk.**

Twitter:

@abrdnTrusts

LinkedIn:

abrdn Investment Trusts

Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Company's website.

Literature Request Service

For literature and application forms for abrdn Investment Trusts' products, please contact us through: **invtrusts.co.uk**, telephone the Manager's Customer Services Department on **0808 500 4000** or write to: abrdn Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

Terms and Conditions

Terms and conditions for abrdn managed savings products can also be found under the Literature section of our website at: **invtrusts.co.uk**.

Investor Information

Continued

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that the securities issued by the Company can be recommended by a financial adviser to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream pooled investments ("NMPIs") and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the Financial Conduct Authority's restrictions which apply to NMPIs because they are securities issued by an investment trust.

Online Dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms.

Discretionary Private Client Stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management and Financial Advice Association at: **pimfa.co.uk**.

Independent Financial Advisers

To find an adviser who recommends on investment trusts, visit: **unbiased.co.uk.**

Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:

Tel: **0800 111 6768** or
visit **https://register.fca.org.uk**
Email: **register@fca.org.uk**

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

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