

# **CAPITAL GEARING TRUST P.L.C.**

## **Half-Year Financial Report**

For the six months ended 5 October 2016

# Company Summary

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- **Investment objective**

To achieve capital growth in absolute terms rather than relative to a particular stock market index, principally through investment in quoted closed-ended and other collective investment vehicles with a willingness to hold cash, bonds, index-linked securities and commodities when it is considered appropriate.

- **Capital structure and voting rights**

The share capital comprises Ordinary shares of 25 pence each. As at 5 October 2016, 3,822,837 shares were in issue (5 October 2015: 2,960,417). Each Ordinary share has one vote.

- **Discount/Premium Management Policy**

The Company will purchase or issue shares to ensure, in normal market conditions, that the shares trade as close as possible to their underlying Net Asset Value per share.

- **Investment management and custodian**

Investment management is carried out by CG Asset Management Limited under an agreement updated 6 April 2014. Custodial services are carried out by The Northern Trust Company under an agreement dated 22 September 2011.

- **Company secretarial, administrative and accounting services**

Company secretarial, administrative and accounting services are provided by PATAC Limited.

- **ISA**

The Company manages its affairs so as to be a fully qualifying investment trust under the individual savings account (ISA) rules.

- **Non-Mainstream Pooled Investment Rules**

The Company's shares are 'excluded securities' for the purposes of the rules relating to non-mainstream pooled investments. This means they can be recommended by independent financial advisers to their ordinary retail clients, subject to normal suitability requirements.



The Association of  
Investment Companies

The Company is a member of the Association of Investment Companies.

## Information disclaimer

This report is produced for members of the Company with the purpose of providing them with information relating to the Company and its financial results for the period under review. This report contains subjective opinion, analysis and forward looking statements which by their very nature involve uncertainty. Events beyond the control of the Directors and the Company may affect actual future results which may therefore differ from those indicated within this historical report. Market and currency fluctuations may occur which may in turn have an impact on the value of the Company's underlying investments in the future. Past performance is no guarantee of future performance. Investments are not guaranteed and you may not get back the amount you originally invested. Neither the Directors nor the Company take responsibility for matters outside of their control.

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# Interim Management Report

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## Chairman's Overview

As at the half year to 5 October 2016, the net asset value per share was 3,647.0p compared to 3,382.0p as at the last year end on 5 April 2016, an increase of 7.8%, which is pleasing in volatile markets for an investment company as concerned to preserve value as to increase it. This compares with increases of 15.6% in the MSCI UK and of 17.9% in the sterling MSCI World Index. RPI over the six month period increased by 1.5%.

The discount / premium management policy instigated in August 2015 has now been in successful operation for more than 15 months. During the half-year, the Company issued 631,856 new shares at an average premium of 1.5% to net asset value, increasing the number of shares in issue by 19.8% to 3,822,837. No shares were repurchased during the six months. This issuance has resulted in a small but demonstrable enhancement to the Company's net asset value per share, even after allowing for the costs of preparing the necessary documentation to seek shareholders' authority to issue shares. Furthermore, the increase in the size of the Company should lead to a modest reduction in the ongoing charges, which stood at 1.04% in financial year 2015-2016. For net assets in excess of £120m, the investment managers' fee reduces from 0.60% to 0.45%. Net assets at the half-year end amounted to £139.4m, 29.2% higher than at the previous financial year end.

Investment markets have continued to face some familiar anxieties over the summer months – renewed fears of a slowdown in the Chinese economy, and questions about the timing and effects of the first upward move in interest rates from the Federal Reserve Board. To these concerns have been added considerable political uncertainties, foremost being the effects of Brexit (largely confined thus far to the significant decline in the value of sterling) and concerns about the nature and policy direction of a new president in the USA.

Certainly, the decline in sterling has proved beneficial to the performance of the Company during the last six months. However, more testing times for both bonds and equities are already emerging. The Company's board and its managers will continue to exercise caution in pursuit of the preservation of capital, as well as aiming to achieve modest gains, where a low risk stance allows.

## Investment Review

Hindsight is a powerful but deceptive mental phenomenon. Inherently unpredictable events are remembered as completely obvious after the dust has settled. However what about foresight, how useful is that in making investment decisions? For example an investor in February of this year with a crystal ball that revealed in advance the outcome of the Brexit vote may have struggled to use that information to forecast the FTSE 100 would rise c.25% by October. Foresight of this year's dollar strength and falling emerging market export data would have caused many investors to sell "risk on" assets, however emerging market equities and debt have been particularly strong performers. A clairvoyant investor with certain knowledge of 8 quarters of negative earnings growth for the S&P 500, may not have anticipated that the result would be an all-time high for the index. Rationalising these apparently irrational pricing responses is difficult other than by falling back on the ultimate catch all explanation; investors are now conditioned to expect a barrage of policy easing if there is any sign of economic or financial stress. Abundant liquidity is a rising tide that floats all boats; it feels great until the tide turns.

A backdrop in which asset prices have been strong and the pound weak is a flattering one for a sterling reporting fund. Notwithstanding this caveat, it was pleasing that the portfolio delivered satisfactory progress with low volatility at a time of extremely unsettled markets. Approximately

# Interim Management Report (continued)

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47% of the fund is invested in overseas assets, many of which enjoyed double digit gains in sterling terms subsequent to 23 June (the day of the Brexit referendum). The high quality government bonds held by the fund were bid up to new levels in the anticipation of future policy easing.

Initially, post Brexit, equities were weak but they have rebounded strongly. The private equity holdings had a particularly strong run benefiting from robust performance in the underlying assets and a narrowing of discounts across the sector due to a number of high profile bids for investment companies. Private Equity Investor, a profitable but mature holding, was subject to a successful bid approach. Other notable contributors included EPE Special Opportunities, JPEL Private Equity and a briefly held but profitable position in Apax Global Alpha. The specialist investment trusts that focus on UK small capitalisation stocks, which collectively represent around a quarter of the equity holdings, rebounded strongly after a weak post Brexit period. Collectively the investment trust equity holdings delivered double digit returns, a result in excess of broader equity indices e.g. MSCI UK.

The zero dividend preference shares and corporate bond holdings also made modest but welcome progress. The ongoing corporate bond buying programme launched by the Bank of England in the wake of the Brexit vote has dramatically depressed corporate bond yields. This has been helpful for the value of the holdings in the portfolio, however prospects for future gains look very limited. It can only be hoped that the Bank of England will soon retreat from its arbitrary intervention in this market and that the coming debt default cycle will return pricing to more rational levels. Until these changes occur the fund will only hold short dated high quality corporate debt, in the anticipation of significant future opportunity in this market when the credit cycle turns.

## Investment Outlook

The concept of austerity has become deeply unfashionable, though government debt levels have never been higher and some countries, notably the UK, are still running substantial budget deficits. These deficits are now under upward rather than downward pressures. The reasons for this shift are numerous, starting with sheer austerity fatigue. The more fundamental issue is that global growth, constrained as it is by excessive debt, has been weak. Monetary policy is now widely perceived to be insufficient on its own to stimulate higher demand. In particular the experiment with negative interest rates, which was undertaken with virtually no academic study, has proved to be very disappointing in its effects.

More generally there is a feeling that monetary stimulus is played out. Even where interest rates are positive, as in China, the growth produced by each percentage point increase in credit has diminished consistently over the last seven years. The result has been calls in both the academic and the financial press for fiscal policy to play its part in avoiding the deflationary recession so dreaded by central banks and governments. A key element of these calls is that a fiscal stimulus can bypass the financial system and be directed towards new investment; as a result, increased government funded infrastructure spending can be anticipated.

In the case of the UK, the Autumn Statement is expected to contain a significant expansion of spending on transport infrastructure paid for by increased long term borrowing. Almost all influential economic institutions whole heartedly back this fiscal expansion, believing it can be carried out in a measured and carefully controlled way. In practice this blurring of monetary and fiscal policy occupies a grey area adjacent to using helicopter money. Any fiscal loosening will be financed by the Bank of England which is printing £10bn per month in its quantitative easing programme. This printed money will prove much easier to create than to reverse. Furthermore,

# Interim Management Report (continued)

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this stimulus is against a background where UK growth has been fine. Investment has been weak given the uncertainties over Brexit, but the devaluation of sterling is a powerful offset. The government's living wage programme will mandate above inflation minimum wage growth through to 2020. Real GDP growth may be higher than the IMF forecast of 1.1% and inflation may be higher than the breakeven of 2.7% on the RPI.

More generally, world trade and growth is lacklustre and, with demand weak and labour incomes rising, the outlook for corporate profits is uninspiring. 2017 may prove to be the third year of negative profits for the S&P500. Equities, like all financial assets, seem to have priced in interest rates that remain lower for ever. Even a relatively modest increase in inflation may challenge that assumption.

## Conclusion

The portfolio continues to be very defensively positioned, with a low allocation to equities and an emphasis on short duration in the fixed income portfolios. Given elevated asset prices the prospects for medium term returns seem distinctly muted. Our return aspirations stretch no further than preserving capital after fees and inflation, in the expectation that better opportunities will present themselves in due course.

For and on behalf of the Board

**Graham Meek**

Chairman

11 November 2016

# Interim Management Report (continued)

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## Required Disclosures

### Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company were explained in detail within the Annual Report issued in May 2016. To these must be added the protracted uncertainties for the UK economy and financial markets arising from the negotiation and implementation of Brexit. Apart from this, the directors are not aware of any other new risks or uncertainties for the Company and its investors both for the period under review and moving forward.

### Related Party Transactions

Details of related party transactions are contained in the Annual Report issued in May 2016. There have been no material changes in the nature and type of the related party transactions as stated within the Annual Report.

### Going Concern

The Company's investment objective and business activities, together with the main trends and factors likely to affect its development and performance are continuously monitored by the Board. The directors believe that the Company is well placed to manage its business risks and having reassessed the principal risks consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

### Alternative Investment Fund Managers Directive ("AIFMD")

The Company is an Alternative Investment Fund ("AIF") as defined by the AIFMD and is registered as a small internally managed AIF on the Register of Small Registered UK AIFMs.

# Interim Management Report (continued)

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## Statement of Directors' Responsibilities

Each director confirms that, to the best of their knowledge:

- (a) The condensed set of financial statements has been prepared in accordance with Financial Reporting Standard 104 (Interim Financial Reporting);
- (b) The Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year and description of principal risks and uncertainties for the remaining six months of the financial year); and
- (c) The Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

The condensed set of financial statements are published on the Company's website, [www.capitalgearingtrust.com](http://www.capitalgearingtrust.com), which is a website maintained by PATAC Limited. The directors are responsible for the maintenance and integrity of the Company's corporate website and financial information included within the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of the Board

**Graham Meek**

Chairman

11 November 2016



# Distribution of Investment Funds

at 5 October 2016

## Distribution of Investment Funds of £138,350,000 (5 April 2016: £107,821,000)

	UK %	North America %	Europe %	Other %	5 October 2016 Total %	5 April 2016 Total %
<b>Investment Trust Assets:</b>						
Ordinary shares	11.9	6.0	3.6	9.7	31.2	30.6
Zero dividend preference shares	9.1	–	0.2	6.3	15.6	22.2
<b>Other Assets:</b>						
Index-linked	16.4	17.0	1.7	0.3	35.4	32.7
Fixed interest	12.5	–	–	1.6	14.1	4.5
Cash	3.5	0.2	–	–	3.7	10.0
	53.4	23.2	5.5	17.9	100.0	100.0

# Investments of the Company

at 5 October 2016

5 October  
2016  
£'000

## Investment Trust Ordinary Shares:

North Atlantic Smaller Companies	5,169
Rights & Issues Income	2,458
TR Property Investment Trust	2,223
Better Capital PCC	1,837
Schroder UK Growth Fund	1,803
Prospect Japan Fund	1,679
Ground Rents Income Fund Ordinary	1,672
JP Morgan Private Equity USD	1,593
Highbridge Multi-Strategy Fund	1,563
ETFS Metal Securities (physical gold)	1,457
Invesco Perpetual UK Smaller Companies Investment Trust	1,351
Jupiter Dividend & Growth Trust	1,237
iShares MSCI Japan GBP Hedged UCITS ETF	1,215
Ecofin Global Utilities and Infrastructure Trust	1,156
North American Income Trust	1,140
Oryx International Growth Fund	1,104
Phoenix Spree Deutschland	1,025
Alliance Trust	945
Sequoia Economic Infrastructure C Shares	743
Foreign & Colonial Investment Trust	682
Mithras Investment Trust	673
Segro	664
Miton Worldwide Growth Investment Trust	549
JP Morgan Overseas Investment Trust	532
Advance Frontier Markets Fund	527
Value & Income Trust	501
Witan Pacific Investment Trust	476
Private Equity Investor	463
GCP Student Living	454
Project Finance Investments	347
Artemis Alpha Trust	333
NextEnergy Solar Fund	318
Unite Group	318
Foresight Solar Fund	316
Eurovestech	313
EPE Special Opportunities	271
Real Estate Credit Investments	258
Polar Capital Global Healthcare Growth and Income	250
John Laing Environmental Assets Group	246
Aberforth Geared Income Trust	244
Witan Investment Trust	237
Candover Investments	223
Henderson Alternative Strategies Trust	174
DW Catalyst Fund	161
Aberdeen Latin American Income	159

# Investments of the Company (continued)

at 5 October 2016

	5 October 2016 £'000
<b>Investment Trust Ordinary Shares (continued):</b>	
Bankers Investment Trust	153
Land Securities Group	150
JP Morgan Global Convertibles Income	146
Marwyn Value Investors	143
JP Morgan Income & Growth Income	138
Bluefield Solar Income Fund	128
Ecofin Realisation Company	127
BH Global	123
Hansa Trust 'A' Shares	114
Fidelity European Values	90
LMS Capital	86
CVC Credit Partners European Opportunities GBP	85
HICL Infrastructure	80
Acencia Debt Strategies	79
Secure Income REIT	79
GCP Infrastructure Investments	66
Weiss Korea Opportunities Fund	62
SQN Asset Finance Income Fund	56
HG Capital Trust	52
Alternative Investment Trust	45
Signet Global Fixed Income Strategies	44
Aberdeen Asian Income Fund	21
Thames River Multi Hedge	20
Schroder Global Real Estate Securities	17
Close European Accelerated Fund	16
Shape Capital	14
Dexion Absolute EUR	13
RENN Universal Growth Investment Trust	11
Dexion Absolute USD	11
JP Morgan Senior Secured Loan	10
Bluecrest Allblue	10
Cambium Global Timberland	6
Alternative Liquidity Solutions	3
Prospect Epicure J-REIT Value Fund	2
	<b>43,259</b>
<b>Investment Trust Zero Dividend Preference Shares:</b>	
NB Private Equity ZDP 2022	3,198
M&G High Income Investment Trust 2017	3,165
Aberforth Geared Income Trust 2017	2,449
JZ Capital Partners 2022	2,301
JP Morgan Private Equity 2017	1,788
JP Morgan Income & Growth Capital 2017	1,746
Utilico Investments 2018	1,472
Acorn Income Fund 2017	1,378

# Investments of the Company (continued)

at 5 October 2016

	<b>5 October 2016 £'000</b>
<b>Investment Trust Zero Dividend Preference Shares (continued):</b>	
Utilico Investments 2020	944
Premier Energy & Water Trust 2020	941
Utilico Finance 2016	931
Picton Property 2016	485
Vinaland 2016	346
Taliesin Property Fund 2018	249
Small Companies Dividend Trust 2018	154
	<b>21,547</b>
<b>Index Linked Securities:</b>	
UK Treasury 0.125% 2019	6,937
UK Treasury 1.25% 2017	6,852
UK Treasury 0.125% 2024	4,121
USA Treasury 1.375% 2018	4,010
USA Treasury 2.0% 2026	3,853
USA Treasury 0.625% 2021	3,241
USA Treasury 1.75% 2028	2,880
USA Treasury 0.125% 2020	2,623
USA Treasury 0.125% 2023	2,481
Sweden (Kingdom of) 0.5% 2017	1,596
UK Treasury 0.125% 2026	1,513
USA Treasury 1.125% 2021	1,144
USA Treasury 1.375% 2020	924
UK Treasury 1.875% 2022	908
USA Treasury 0.125% 2024	802
Sweden (Kingdom of) 4.0% 2020	739
USA Treasury 0.625% 2023	664
USA Treasury 0.125% 2019	654
Tesco Personal Finance 1% 2019	625
National Grid 1.25% 2021	435
Sydney ARPT Finance Company 3.76% 2020	419
Severn Trent 1.3% 2022	384
Workspace Group 6% 2019	373
USA Treasury 0.125% 2022	212
The Housing Finance Corporation 5.5% 2024	197
Nationwide 3.875% 2021	109
National Grid 2.983% 2018	104
The Housing Finance Corporation 5.65% 2020	98
Places for People Capital Markets 5% 2016	45
	<b>48,943</b>

# Investments of the Company (continued)

at 5 October 2016

	5 October 2016 £'000
<b>Fixed Interest Securities:</b>	
UK Treasury 27/02/2017	2,997
UK Treasury 17/10/2016	2,000
UK Treasury 24/10/2016	2,000
UK Treasury 20/02/2017	1,998
UK Treasury 13/03/2016	1,997
UK Treasury 27/03/2016	1,747
UK Treasury 07/11/2016	1,500
Pershing Square 5.5% 2022	1,170
JZ Capital Partners 6.0% Convertible Unsecured Loan Stock 2021	1,124
City Natural Resources 3.5% Convertible Unsecured Loan Stock 2018	1,076
F&C Global Smaller Companies plc 3.5% Convertible Unsecured Loan Stock 2019	529
Edinburgh Dragon Trust 3.5% 2018	481
EPE Special Opportunities Convertible Loan Notes 2022	432
The Mercantile Investment Trust 6.125% 2030	195
Bruntwood Investments 6.0% 24/07/2020	101
Aberdeen Asian Smaller Companies Investment Trust 3.5% 2019	81
Alpha Plus 5.75% 2019	32
Primary Healthcare Properties 5.375% 2019	31
	<b>19,491</b>
<b>Total investments</b>	<b>133,240</b>
<b>Cash held by the custodian awaiting investment</b>	<b>5,110</b>
<b>Total investment funds</b>	<b>138,350</b>

# Income Statement (unaudited)

for the six months ended 5 October 2016

	Revenue £'000	Capital £'000	(unaudited) 6 months ended 5 October 2016 Total £'000
Net gains/(losses) on investments	–	10,071	10,071
Exchange losses	–	(96)	(96)
Investment income (note 2)	688	–	688
<b>Gross return/(loss)</b>	<b>688</b>	<b>9,975</b>	<b>10,663</b>
Investment management fee	(154)	(231)	(385)
Other expenses	(200)	–	(200)
<b>Net return/(loss) on ordinary activities before tax</b>	<b>334</b>	<b>9,744</b>	<b>10,078</b>
Tax on ordinary activities (note 6)	–	–	–
<b>Net return/(loss) attributable to equity shareholders</b>	<b>334</b>	<b>9,744</b>	<b>10,078</b>
<b>Return/(loss) per Ordinary Share (note 3)</b>	<b>9.46p</b>	<b>276.01p</b>	<b>285.47p</b>

The total column of this statement represents the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance issued by the Association of Investment Companies.

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

There are no gains or losses other than those recognised in the income statement.

There is no material difference between the net return/(loss) on ordinary activities before tax and the net return/(loss) attributable to equity shareholders stated above and their historical cost equivalents.

Revenue £'000	(unaudited) 6 months ended 5 October 2015			Revenue £'000	(audited) Year ended 5 April 2016	
	Capital £'000	Total £'000	Revenue £'000		Capital £'000	Total £'000
–	(964)	(964)	–	3,067	3,067	
–	(174)	(174)	–	(123)	(123)	
571	–	571	1,167	–	1,167	
571	(1,138)	(567)	1,167	2,944	4,111	
(115)	(172)	(287)	(238)	(357)	(595)	
(243)	–	(243)	(421)	–	(421)	
213	(1,310)	(1,097)	508	2,587	3,095	
–	–	–	(5)	5	–	
213	(1,310)	(1,097)	503	2,592	3,095	
7.27p	(44.69)p	(37.42)p	16.91p	87.14p	104.05p	

# Statement of Changes in Equity (unaudited)

for the six months ended 5 October 2016

	Called-up Share capital £'000	Share premium account £'000	Capital redemption reserves £'000	Capital reserve* £'000	Revenue reserve £'000	Total £'000
Balance at 6 April 2016	<b>798</b>	<b>20,934</b>	<b>16</b>	<b>84,453</b>	<b>1,719</b>	<b>107,920</b>
Net return attributable to equity shareholders and total comprehensive income for the period	–	–	–	<b>9,744</b>	<b>334</b>	<b>10,078</b>
Shares issued from treasury (note 7)	–	–	–	<b>3</b>	–	<b>3</b>
New shares issued (note 7)	<b>158</b>	<b>21,945</b>	–	–	–	<b>22,103</b>
Dividends paid (note 4)	–	–	–	–	<b>(686)</b>	<b>(686)</b>
Total transactions with owners recognised directly in equity	<b>158</b>	<b>21,945</b>	–	<b>3</b>	<b>(686)</b>	<b>21,420</b>
Balance at 5 October 2016	<b>956</b>	<b>42,879</b>	<b>16</b>	<b>94,200</b>	<b>1,367</b>	<b>139,418</b>

for the six months ended 5 October 2015

	Called-up Share capital £'000	Share premium account £'000	Capital redemption reserves £'000	Capital reserve* £'000	Revenue reserve £'000	Total £'000
Balance at 6 April 2015	731	12,107	16	81,864	1,801	96,519
Net return attributable to equity shareholders and total comprehensive income for the period	–	–	–	(1,310)	213	(1,097)
New shares issued (note 7)	9	1,085	–	–	–	1,094
Dividends paid (note 4)	–	–	–	–	(585)	(585)
Total transactions with owners recognised directly in equity	9	1,085	–	–	(585)	509
Balance at 5 October 2015	740	13,192	16	80,554	1,429	95,931

\* The Capital Reserve balance at 5 October 2016 includes unrealised gains on fixed asset investments of £18,286,000 (5 October 2015 – gains of £7,455,000 and 6 April 2016 – gains of £10,301,000).



# Statement of Financial Position (unaudited)

at 5 October 2016

	(unaudited) 5 October 2016 £'000	(unaudited) 5 October 2015 £'000	(audited) 5 April 2016 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	<b>133,240</b>	89,497	97,065
<b>Current assets</b>			
Debtors	<b>1,747</b>	468	464
Cash at bank and in hand	<b>5,110</b>	6,302	10,756
	<b>6,857</b>	6,770	11,220
<b>Creditors: amounts falling due within one year</b>	<b>(679)</b>	(336)	(365)
<b>Net current assets</b>	<b>6,178</b>	6,434	10,855
<b>Total assets less current liabilities</b>	<b>139,418</b>	95,931	107,920
<b>Capital and reserves</b>			
Called up share capital	<b>956</b>	740	798
Share premium account	<b>42,879</b>	13,192	20,934
Capital redemption reserve	<b>16</b>	16	16
Capital reserve	<b>94,200</b>	80,554	84,453
Revenue reserve	<b>1,367</b>	1,429	1,719
<b>Total equity shareholders' funds</b>	<b>139,418</b>	95,931	107,920
<b>Net asset value per Ordinary Share</b>	<b>3,647.0p</b>	3,240.5p	3,282.0p

The Half-Year Financial Report for the six months ended 5 October 2016 was approved by the Board of Directors on 11 November 2016 and signed on its behalf by:

**Graham Meek**  
Chairman

11 November 2016

# Cash Flow Statement (unaudited)

for the six months ended 5 October 2016

	(unaudited) 6 months ended 5 October 2016 £'000	(unaudited) 6 months ended 5 October 2015 £'000	(audited) Year ended 5 April 2016 £'000
<b>Net cash outflow from operations before dividends &amp; interest (note 5)</b>	<b>(443)</b>	(632)	(1,175)
Dividends received	<b>314</b>	300	510
Interest received	<b>330</b>	275	677
<b>Net cash inflow/(outflow) from operating activities</b>	<b>201</b>	(57)	12
Payments to acquire investments	<b>(54,453)</b>	(9,486)	(42,819)
Receipts from sale of investments	<b>27,871</b>	6,599	36,691
<b>Net cash outflow from investing activities</b>	<b>(26,582)</b>	(2,887)	(6,128)
Equity dividends paid	<b>(686)</b>	(585)	(585)
Repurchase of ordinary shares	–	–	(309)
Issue of ordinary shares	<b>21,421</b>	1,094	9,029
<b>Net cash inflow from financing activities</b>	<b>20,735</b>	509	8,135
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(5,646)</b>	(2,435)	2,019
Cash and cash equivalents at start of period	<b>10,756</b>	8,737	8,737
Cash and cash equivalents at end of period	<b>5,110</b>	6,302	10,756
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(5,646)</b>	(2,435)	2,019
<b>Cash and cash equivalents consist of cash at bank, and in hand</b>	<b>5,110</b>	6,302	10,756

# Notes to the Financial Statements

## 1 Basis of preparation

The condensed Financial Statements for the six months to 5 October 2016 comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position and the Cash Flow Statement, together with the notes set out below. They have been prepared in accordance with FRS 104 'Interim Financial Reporting', the AIC's Statement of Recommended Practice issued in November 2014 ('SORP'), UK Generally Accepted Accounting Principles ('UK GAAP') and using the same accounting policies as set out in the Company's Annual Report and Accounts at 5 April 2016.

## Fair Value

Under FRS 102 and FRS 104 investments have been classified using the following fair value hierarchy:

Level 1: valued using unadjusted quoted prices in active markets for identical assets.

Level 2: valued using observable inputs other than quoted prices included within Level 1.

Level 3: valued using inputs that are unobservable.

All of the Company's investments fall into Level 1 for the periods reported.

## 2 Investment income

	(unaudited) 6 months ended 5 October 2016 £'000	(unaudited) 6 months ended 5 October 2015 £'000	(audited) Year ended 5 April 2016 £'000
<b>Income from investments</b>			
Income from UK bonds	193	203	420
Income from UK equity and non-equity investments	339	241	483
Interest from overseas bonds	156	127	264
Total income	688	571	1,167

## 3 Return per Ordinary Share

The calculation of return per Ordinary Share is based on results after tax divided by the weighted average number of shares in issue during the period of 3,530,359 (5 October 2015: 2,931,377, 5 April 2016: 2,974,510).

The revenue, capital and total return per Ordinary Share is shown in the Income Statement.

# Notes to the Financial Statements

## (continued)

### 4 Dividends paid

	<b>(unaudited) 6 months ended 5 October 2016 £'000</b>	(unaudited) 6 months ended 5 October 2015 £'000	(audited) Year ended 5 April 2016 £'000
2015 Dividend paid 17 July 2015 (20.0p per share)	–	585	585
2016 Dividend paid 22 July 2016 (20.0p per share)	<b>686</b>	–	–

### 5 Reconciliation of net return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	<b>(unaudited) 6 months ended 5 October 2016 £'000</b>	(unaudited) 6 months ended 5 October 2015 £'000	(audited) Year ended 5 April 2016 £'000
Net return on ordinary activities before finance costs and taxation	<b>10,078</b>	(1,097)	3,095
Less capital return on ordinary activities before finance costs and taxation	<b>(9,744)</b>	1,310	(2,587)
Decrease/(increase) in prepayments and accrued income	<b>106</b>	(7)	1
Decrease in accruals and deferred income	<b>(4)</b>	(95)	(15)
Management fees charged to capital	<b>(231)</b>	(172)	(357)
Overseas withholding tax	<b>–</b>	–	(22)
Dividends received	<b>(339)</b>	(241)	(483)
Interest received	<b>(349)</b>	(330)	(684)
Realised gains/(losses) on foreign currency transactions	<b>40</b>	–	(123)
Net cash outflow from operations before dividend and interest	<b>(443)</b>	(632)	(1,175)

# Notes to the Financial Statements

## (continued)

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### 6 Taxation

Capital returns and franked dividend income are not subject to corporation tax within an investment trust company. The provision for corporation tax in the prior periods arises from the excess of unfranked investment income over management expenses. During the six months to 5 October 2016 a refund of £88,000 of withholding tax in relation to prior periods was received from the Swiss tax authorities (periods to 5 April 2016 and 5 October 2015: £nil).

### 7 Ordinary Shares

During the period the Company re-issued 81 Ordinary shares of 25p each from treasury for proceeds totalling £3,000 (period to 5 October 2015: no shares re-issued from treasury, year to 5 April 2016: 9,369 Ordinary shares of 25p each re-issued from treasury for proceeds totalling £315,000).

During the period the Company issued 631,775 new Ordinary shares of 25p each for proceeds totalling £22,103,000 (period to 5 October 2015: 33,511 new Ordinary shares of 25p each issued for proceeds totalling £1,094,000, year to 5 April 2016: 264,156 new Ordinary shares of 25p each issued for proceeds totalling £8,885,000).

During the period the Company did not repurchase any Ordinary shares (period to 5 October 2015: no Ordinary shares were repurchased, year to 5 April 2016: 9,450 Ordinary shares of 25p each repurchased at a cost of £309,000 and held in treasury).

At 5 October 2016, there were 3,822,837 Ordinary Shares in issue (5 October 2015: 2,960,417, 5 April 2016: 3,190,981(excluding 81 shares held in treasury)).

### 8 Transaction Costs

Transaction costs on acquisitions within the portfolio amounted to £76,000 and transaction costs on sales amounted to £11,000. These costs are included in the book cost of acquisitions and in the net proceeds of disposals.

### 9 General information

The financial information contained in this Half-Year Financial Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the half-years ended 5 October 2015 and 5 October 2016 has not been audited. The abridged financial information for the year ended 5 April 2016 has been extracted from the Company's statutory accounts for that year, which have been filed with the Registrar of Companies. The report of the Auditors on those accounts was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006.

# Shareholder Information

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## Financial Reporting

Copies of the Company's annual and half-year reports may be obtained from the Company Secretary and electronic copies can be accessed on the Company's website [www.capitalgearingtrust.com](http://www.capitalgearingtrust.com)

## Contacting the Board

Any shareholders wishing to communicate directly with the Board should do so via the Company Secretary:

Steven Cowie BA, CA  
PATAC Limited  
10 St Colme Street  
Edinburgh EH3 6AA  
Telephone: 0131 538 6610  
Email: [company.secretary@capitalgearingtrust.com](mailto:company.secretary@capitalgearingtrust.com)

## Registered Office

Waterfront Plaza  
8 Laganbank Road  
Belfast BT1 3LR

## Registered Number

NI005574

## Capital Gains Tax

As at 31 March 1982 the adjusted value for capital gains tax purposes of the 25p Ordinary shares was 21.25p

## Financial Calendar (guide)

Annual Results	May
Annual General Meeting	July
Dividend Payment Date	July
Half-Year Report	November

## Frequency of NAV Publication

Daily

## How to Invest

Via your bank, stockbroker or other financial adviser

## Sources of Further Information

Company's website [www.capitalgearingtrust.com](http://www.capitalgearingtrust.com)

Financial Times	<a href="http://www.ft.com">www.ft.com</a>
AIC	<a href="http://www.theaic.co.uk">www.theaic.co.uk</a>

For registry queries contact Computershare on 0370 873 5864

## Share Identification Codes

SEDOL:	0173861
ISIN:	GB0001738615
BLOOMBERG:	CGT:LN
FT:	CGT:LSE

## Substantial Shareholdings

The Disclosure and Transparency Rules require shareholders of the Company to simultaneously to inform the Company and the Financial Conduct Authority (the "FCA") of changes to major holdings in the Company's shares within two trading days of the change

For further information, please visit the FCA's website:

[www.fca.org.uk/static/documents/ukla/forms/notes-tr1.pdf](http://www.fca.org.uk/static/documents/ukla/forms/notes-tr1.pdf)

# Shareholder Information

## (continued)

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### Nominee Share Code

The Company will arrange for copies of shareholder documents to be made available on request to interested parties and operators of nominee accounts.

### Disability Act

Access for the hard of hearing to the services of the Registrar to the Company, Computershare Investor Services PLC, is provided by their contact centre's text phone service on 0370 702 0005. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the RNID) you should dial 18001 followed by the number you wish to dial.

# Notes

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# Notes

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# Notes

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**Capital Gearing Trust P.I.C.**

Waterfront Plaza  
8 Laganbank Road  
Belfast BT1 3LR

[www.capitalgearingtrust.com](http://www.capitalgearingtrust.com)