

# CAPITAL GEARING TRUST P.L.C.

## Half-Year Financial Report

For the six months ended 5 October 2020

# Company Summary

## ■ The Company

Capital Gearing Trust P.I.c. ("the Company") is an investment trust with shares listed on the premium segment of the Official List and traded on the main market of the London Stock Exchange.

## ■ Investment objectives

The Company's dual objectives are to preserve shareholders' real wealth and to achieve absolute total return over the medium to longer term.

## ■ Capital structure and voting rights

The share capital comprises Ordinary shares of 25 pence each. As at 5 October 2020, 12,323,863 shares were in issue. No Ordinary shares are held in treasury. Each Ordinary share has one vote.

## ■ Discount/Premium Management Policy

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

## ■ Dividends

The Company pays an annual dividend but focuses on total return rather than any net income level.

## ■ Management and Administration

Investment management is carried out by CG Asset Management ("CGAM") for an

annual fee of 0.6% of net assets up to £120m, 0.45% on net assets above £120m to £500m and 0.30% thereafter. Company secretarial, administrative and accounting services are provided by PATAC. Custodial and Depository services are carried out by The Northern Trust Company.

## ■ Alternative Investment Fund Management Directive ("AIFMD")

The Company is an Alternative Investment Fund as defined by the AIFMD and CGAM is the Company's full scope Alternative Investment Fund Manager.

## ■ ISA

The Company manages its affairs 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 advisors to their ordinary retail clients, subject to normal suitability requirements.

## ■ Financial Calendar (guide)

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



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. This Half-Year Financial Report is being produced during a period of extraordinary times affecting health, social, economic and financial events around the world. The Board and its advisers, including CG Asset Management and PATAC, have endeavoured to produce these accounts in good faith and in accordance with legislation, regulations, reporting standards and to be useful to stakeholders in the Company, including its shareholders.

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# Financial Information and Performance

## Performance Highlights

|   | 5 October<br>2020 | 5 April<br>2020 |
|---|-------------------|-----------------|
| Share Price (pence)                     | 4,530.0           | 4,190.0         |
| NAV per Share (pence)                   | 4,409.0           | 4,084.2         |
| Premium to NAV (%)                      | 2.7               | 2.6             |
| Market Capitalisation (£m)              | 558.3             | 482.2           |
| Shareholders' Funds (£m)                | 543.4             | 470.1           |
| Shares in issue                         | 12,323,863        | 11,509,263      |
| MSCI UK Index                           | 13,284.6          | 12,085.7        |
| UK Retail Price Index (at 30 September) | 294.3             | 292.6           |

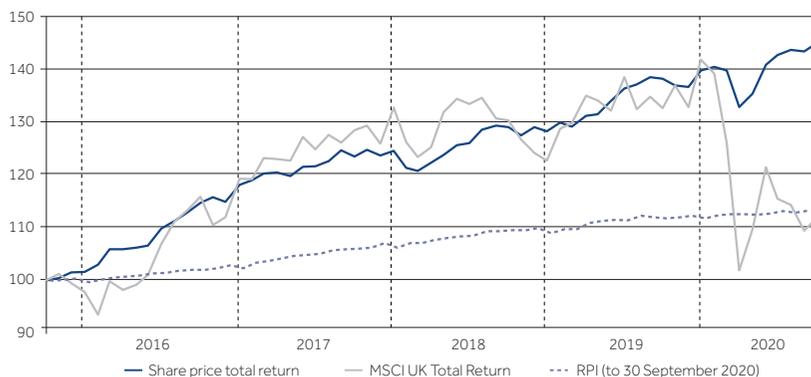
## Total Returns\* for periods to 5 October 2020

|  | 6 months<br>(%) | 1 Year<br>(%) | 3 Years<br>(%) | 5 Years<br>(%) | 10 Years<br>(%) |
|--|-----------------|---------------|----------------|----------------|-----------------|
| Share Price                            | 9.2             | 4.9           | 17.5           | 45.5           | 71.2            |
| NAV per Share                          | 9.9             | 4.5           | 16.4           | 40.5           | 77.8            |
| MSCI UK Index                          | 9.9             | -15.8         | -13.0          | 12.1           | 49.3            |
| Inflation (RPI) (to 30 September 2020) | 0.6             | 1.1           | 7.0            | 13.4           | 30.6            |
| Share Price rel. to MSCI UK            | -0.6            | 24.6          | 35.1           | 29.8           | 14.7            |
| Share Price Relative to RPI            | 8.5             | 3.8           | 9.8            | 28.3           | 31.1            |

\*Source: Refinitiv Datastream

## Share price total return performance 2015 to 2020

Based on mid-market prices, the graph below illustrates the total return to investors in the Company over the past five years, compared with the total return on the MSCI UK Index\*. Each measure is rebased to 100 in 2015.



\*Source: Refinitiv Datastream

# Interim Management Report

## Chairman's Overview

This has been an extraordinary last six months and it is a credit to our Manager and our other service agents that the Company has proven resilient both in its portfolio performance and its day to day operations, including the operation of our discount/premium control policy (DCP). Sadly, the prospects for health, economics and markets generally continue to be very uncertain.

At the half year to 5 October 2020, the net asset value per share was 4,409.0p, compared to 4,084.2p at 5 April 2020. This represents a total return of 9.9% over the past six months and 4.5% over the last twelve months. Whilst the Company does not have a formal equity benchmark, other than to beat the RPI over the medium term, the performance has matched the rise of 9.9% in the MSCI UK Index over the past six months, and is significantly ahead of the -15.8% return from this index over the past year. The Company's returns over the last six months were boosted by strong performance from the equity portfolio as stocks bounced back after their initial setback following the emergence of the Covid pandemic in early March, just before our year end.

The Company's net assets have grown from £470.1m at 5 April 2020 to £543.4m at 5 October 2020, and demand for the Company's shares has continued with share issuance worth £36m. The Company has not bought back any shares during the period. The shares that were held in treasury at the year end have all subsequently been re-issued to meet demand. Our DCP continues to work well and has provided liquidity in the market for both buyers and sellers of the Company's shares. We now have considerable breadth to the Company's share register, with wealth managers and private investors, including through retail platforms, making up the predominate ownership.

With the growth in the net assets, ongoing charges continued to fall. The ongoing charges ratio ("OCR") which we have used historically has fallen from 0.65% to 0.61% (and an OCR including the costs of the underlying funds in which we invest has fallen from 0.91% to 0.87%). Now that the Company has assets under management of over £500m, the management fee has reduced to 0.3% per annum for funds over this level. We are very pleased at the Company's competitive cost basis and the liquidity of the fund.

Since the advent of the Covid pandemic, the Board has worked closely with the Manager and other agents of the Company to ensure that the Company's operations are resilient and the portfolio is robust to meet challenges and opportunities. We have also been engaged in transitioning to a new audit firm for the forthcoming year end; reviewing our investment policy to ensure that it reflects what we do and is more understandable for existing and future investors, but is basically unchanged in what objectives it meets; and in succession planning, of which more later.

In such uncertain times, we believe it is important that we communicate with all shareholders. We are taking steps to enhance the Company's website, and we will be posting occasional videos from the Manager which update shareholders on the performance of the Company and their views on markets. You will also find monthly factsheets and written quarterly investment commentaries on the website.

# Interim Management Report (continued)

## Investment Review

All areas of the portfolio contributed to positive returns in the first half but it was the equities that really helped to make progress. Collectively, risk asset holdings returned in excess of 20% in the period, well ahead of the MSCI UK index. Pleasingly, two large positions, Pershing Square Holdings Ltd and Tritax Big Box plc, both established as meaningful investments in the portfolio in March, returned in excess of 40%. Other top ten risk asset holdings returning close to 40% included Vonovia SE, Investor AB and Castellum AB. There was a drag on performance from the relatively large passive exposure to UK equities but overall the risk asset portfolio performed well.

New activity in the period included an unusually high number of primary and secondary placings, with a focus on alternative property ("beds and sheds") and renewable energy infrastructure. Specific names in the portfolio include Secure Income REIT plc, Supermarket REIT plc, Greencoat UK Wind plc, Greencoat Renewables plc, HICL Infrastructure plc, SDCL Secure Energy Efficiency Income Trust plc, US Solar Fund plc and Urban Logistics REIT plc. The common theme amongst these additions is some element of index-linked uplifts and typically a long credit exposure to investment grade or sovereign counterparties.

As an example, Supermarket REIT plc, which as the name suggests, owns a portfolio of supermarkets on long leases principally let to Sainsburys and Tesco. The portfolio has a yield of 5%, index-linked, with a lease term of 16 years. Consequently around 70% of the net present value of the portfolio relates to an index-linked cashflow where the obligor is one of the major UK supermarkets. The spread over index-linked gilts is an attractive 7.5%. The spread over Tesco's own unsecured index-linked bonds with similar duration is 5%. This seems an attractive additional yield, especially given Supermarket REIT has the security of owning the property, whereas a bond holder is an unsecured creditor.

So what is the catch? There is a prevailing view that, come the end of the leases, these properties will be over-rented which will serve to reduce long term returns. This is by no means certain but it is a legitimate worry. Ultimately, the residual value, and therefore future rents, will relate to land prices. The portfolio is largely situated on the edge of prosperous towns around the UK. This is a crowded island so while the possibility of over-renting gives cause for concern, the long term prospects for these assets seems well underpinned by land values, that if needs be can be put to other uses. Introducing these, and other similar assets as a replacement for corporate credit and sovereign index-linked clearly introduces risks. While the Manager expects these securities to have low correlation to equities in "normal" markets, in times of crisis these correlations are likely to rise to one.

To help counterbalance this additional equity exposure, the Manager increased their weighting to index-linked bonds to just below 30% of the portfolio, and the duration of those bonds was extended. New purchases were made in Japan, Sweden and Australia diversifying away a little from our historic concentration in US index-linked bonds ("TIPS"). In an unexpected development Japan now offers the highest real yields in the Company's investment universe. It is rare and

# Interim Management Report (continued)

pleasing to acquire a safe haven asset offering a positive real yield. Within the TIPS holdings, which still make up 20% of the portfolio, the Manager has lengthened average duration to more than 11 years. Real yields on TIPS have significantly reduced over the last 12 months but these instruments remain central to the Company's defensive asset allocation. By holding a smaller portfolio of longer duration TIPS, the Manager hopes to benefit from their negative correlation with equities whilst diversifying the overseas currency exposure to include more Yen, Swedish Krona and Australian Dollar.

Offsetting these equity and bond purchases has been a reduction in cash (and cash equivalent) levels. Before the Covid crisis, the Company held more than 20% in cash and equivalents, today this level is nearer to 7%. This is still relatively high compared to history but closer to "normal" levels.

With equity and bond markets simultaneously trading at elevated levels, attempting to construct a portfolio with the potential for reasonable returns but also with robust downside protection has never felt more like walking a tightrope. Nevertheless, the Manager remains hopeful that the Company will be able to deliver above average returns, adjusted for its carefully considered and controlled risks, over the medium to longer term: the priority continuing to be protection of asset value in the meantime as part of the Company's dual objectives.

## Board Changes

I am indebted to Graham Meek for his valued leadership as Chairman of the Board over the last five years, and his significant contribution as a Board director since 2004. He kindly agreed to stay on the Board during the initial stages of the Covid pandemic to give us an element of continuity but will step down from the Board in November and we wish him well.

We appointed Paul Yates as a non-executive director in December 2019, shortly before George Prescott stood down from the Board. The Board roles were addressed accordingly on a small, but highly engaged, Board. We have begun the search for a new independent director, using an external search agency, in order to recruit from a wide talent pool. We expect to appoint someone in the new year. This will take the independent Board complement to four, with Alastair Laing, CEO of our Manager, being a non-independent member of the Board.

## Outlook

The outlook remains as uncertain as it has all year. Our Manager has achieved what they set out to do, which is to protect shareholders' real wealth and to provide an absolute return, in what has proved to be very difficult and volatile markets. They maintain an emphasis on inflation-linked assets, given their view that inflation will emerge at some point.

## Interim Management Report (continued)

No one can predict the performance of the markets over the coming months, but I can say that I have every confidence in the Manager's ability to offset the worst of any volatility that may arise. They will do their best to continue to give shareholders an absolute return over the medium to longer term, through careful stock selection and asset allocation.

For and on behalf of the Board

**Jean Matterson**

Chairman

12 November 2020

# Distribution of Investment Funds

## at 5 October 2020

### Distribution of assets of £548,938,000 at 5 October 2020

|                                      | Currency Exposure |             |            |               |              |            | Total (%)    |
|--------------------------------------|-------------------|-------------|------------|---------------|--------------|------------|--------------|
|                                      | Sterling          | US Dollar   | Euro       | Swedish Krona | Japanese Yen | Other      |              |
| Index-linked Government Bonds        | 2.9               | 19.7        | –          | 2.2           | 3.6          | 0.4        | <b>28.8</b>  |
| Conventional Government Bonds        | 5.9               | –           | –          | –             | –            | –          | <b>5.9</b>   |
| Preference Shares/<br>Corporate Debt | 12.7              | 1.4         | –          | –             | –            | 0.3        | <b>14.4</b>  |
| Funds/Equities                       | 33.4              | 2.4         | 3.1        | 2.3           | –            | –          | <b>41.2</b>  |
| Cash                                 | 6.7               | –           | 0.1        | 0.4           | –            | –          | <b>7.2</b>   |
| Gold                                 | 2.5               | –           | –          | –             | –            | –          | <b>2.5</b>   |
| <b>Total</b>                         | <b>64.1</b>       | <b>23.5</b> | <b>3.2</b> | <b>4.9</b>    | <b>3.6</b>   | <b>0.7</b> | <b>100.0</b> |

### Distribution of assets of £478,492,000 at 5 April 2020

|                                      | Currency Exposure |             |            |               |              |            | Total (%)    |
|--------------------------------------|-------------------|-------------|------------|---------------|--------------|------------|--------------|
|                                      | Sterling          | US Dollar   | Euro       | Swedish Krona | Japanese Yen | Other      |              |
| Index-Linked Government Bonds        | 4.0               | 20.1        | –          | 1.0           | –            | –          | <b>25.1</b>  |
| Conventional Government Bonds        | 18.8              | –           | –          | –             | –            | –          | <b>18.8</b>  |
| Preference Shares/<br>Corporate Debt | 10.8              | 1.3         | 1.1        | –             | –            | 0.8        | <b>14.0</b>  |
| Funds/Equities                       | 17.4              | 2.7         | 3.9        | 2.6           | 3.4          | 4.1        | <b>34.1</b>  |
| Cash                                 | 6.3               | 0.6         | –          | –             | –            | –          | <b>6.9</b>   |
| Gold                                 | –                 | –           | –          | –             | –            | 1.1        | <b>1.1</b>   |
| <b>Total</b>                         | <b>57.3</b>       | <b>24.7</b> | <b>5.0</b> | <b>3.6</b>    | <b>3.4</b>   | <b>6.0</b> | <b>100.0</b> |

# Investments of the Company

at 5 October 2020

The top ten investments in each asset category are listed below. The full portfolio listing of the Company as at 5 October 2020 is published on the Company's website [www.capitalgearingtrust.com](http://www.capitalgearingtrust.com).

|   | £'000         | % of assets |
|---|---------------|-------------|
| <b>Top 10 Index-Linked Government Bonds</b> |               |             |
| UK Treasury 0.125% 2024                     | 14,779        | 2.7         |
| US Treasury 2.0% 2026                       | 10,251        | 1.9         |
| Japan Treasury 0.1% 2029                    | 9,044         | 1.6         |
| USA Treasury 0.75% 2045                     | 8,501         | 1.5         |
| USA Treasury 1.375% 2044                    | 7,821         | 1.4         |
| Japan Treasury 0.1% 2028                    | 7,710         | 1.4         |
| USA Treasury 0.625% 2023                    | 6,653         | 1.2         |
| USA Treasury 2.125% 2041                    | 5,461         | 1.0         |
| USA Treasury 3.875% 2029                    | 5,212         | 0.9         |
| USA Treasury 1.75% 2028                     | 5,204         | 0.9         |
|   | <b>80,636</b> | <b>14.5</b> |
| <b>Top 10 Conventional Government Bonds</b> |               |             |
| UK Treasury 2021                            | 6,000         | 1.1         |
| UK Treasury 2020                            | 5,000         | 1.0         |
| UK Treasury 2021                            | 4,000         | 0.7         |
| UK Treasury 2020                            | 4,000         | 0.7         |
| UK Treasury 2020                            | 3,000         | 0.5         |
| UK Treasury 2020                            | 3,000         | 0.5         |
| UK Treasury 2020                            | 2,000         | 0.4         |
| UK Treasury 2020                            | 2,000         | 0.4         |
| UK Treasury 2020                            | 2,000         | 0.4         |
| UK Treasury 2020                            | 1,300         | 0.2         |
|   | <b>32,300</b> | <b>5.9</b>  |

# Investments of the Company (continued)

## at 5 October 2020

|   | £'000          | % of assets  |
|---|----------------|--------------|
| <b>Top 10 Preference Shares/Corporate Debt</b>                      |                |              |
| Pershing Square 5.5% 2022 ( <i>corporate debt</i> )                 | 5,364          | 1.0          |
| NB Private Equity 2022 ( <i>zero dividend preference share</i> )    | 3,440          | 0.6          |
| Severn Trent 1.3% 2022 ( <i>corporate debt</i> )                    | 2,720          | 0.5          |
| Burford Capital 6.5% 2022 ( <i>corporate debt</i> )                 | 2,678          | 0.5          |
| Utilico Investments 2020 ( <i>zero dividend preference share</i> )  | 2,613          | 0.5          |
| National Grid 1.25% 2021 ( <i>corporate debt</i> )                  | 2,505          | 0.5          |
| Juneau Investments 5.9% 2021 ( <i>corporate debt</i> )              | 2,410          | 0.4          |
| Acorn Income Fund 2022 ( <i>zero dividend preference share</i> )    | 2,346          | 0.4          |
| Places for People Capital Markets 1% 2022 ( <i>corporate debt</i> ) | 2,334          | 0.4          |
| JZ Capital Partners 6.0% 2021 ( <i>corporate debt</i> )             | 2,206          | 0.4          |
|   | <b>28,616</b>  | <b>5.2</b>   |
| <b>Top 10 Funds/Equities</b>  |                |              |
| Vanguard FTSE Japan UCITS ETF                                       | 25,910         | 4.7          |
| Vonovia   | 13,043         | 2.4          |
| iShares Core FTSE 100 ETF   | 12,850         | 2.3          |
| Vanguard FTSE 100 UCITS ETF   | 11,404         | 2.1          |
| Pershing Square   | 10,124         | 1.8          |
| Tritax Big Box REIT   | 9,683          | 1.8          |
| North Atlantic Smaller Companies                                    | 8,649          | 1.6          |
| Grainger  | 8,283          | 1.5          |
| Secure Income REIT  | 8,209          | 1.5          |
| GCP Student Living  | 6,124          | 1.1          |
|   | <b>114,279</b> | <b>21.1</b>  |
| <b>Gold</b>   |                |              |
| Wisdomtree Physical Swiss Gold                                      | <b>13,734</b>  | <b>2.5</b>   |
| <b>Other investments</b>  | <b>240,059</b> | <b>43.6</b>  |
| <b>Cash</b>   | <b>39,314</b>  | <b>7.2</b>   |
| <b>Total assets</b>   | <b>548,938</b> | <b>100.0</b> |

# Income Statement (unaudited)

for the six months ended 5 October 2020

|   | Revenue<br>£'000 | Capital<br>£'000 | (unaudited)<br>6 months<br>ended<br>5 October<br>2020<br>Total<br>£'000 |
|---|------------------|------------------|---|
| Net gains/(losses) on investments                     | –                | 39,137           | 39,137  |
| Exchange gains  | –                | (80)             | (80)  |
| Investment income (note 2)                            | 4,933            | –                | 4,933   |
| <b>Gross return</b>                                   | <b>4,933</b>     | <b>39,057</b>    | <b>43,990</b>   |
| Investment management fee                             | (1,256)          | –                | (1,256)   |
| Other expenses  | (306)            | –                | (306)   |
| <b>Net return on ordinary activities before tax</b>   | <b>3,371</b>     | <b>39,057</b>    | <b>42,428</b>   |
| Tax (charge)/credit on net return                     | (211)            | –                | (211)   |
| <b>Net return attributable to equity shareholders</b> | <b>3,160</b>     | <b>39,057</b>    | <b>42,217</b>   |
| <b>Return per Ordinary share (note 3)</b>             | <b>26.61p</b>    | <b>328.87p</b>   | <b>355.48p</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.

## Income Statement (unaudited) (continued)

|                  |                  | (unaudited)<br>6 months<br>ended<br>5 October<br>2019<br>Total<br>£'000 |                  |                  | (audited)<br>Year<br>ended<br>5 April<br>2020<br>Total<br>£'000 |
|------------------|------------------|---|------------------|------------------|---|
| Revenue<br>£'000 | Capital<br>£'000 |   | Revenue<br>£'000 | Capital<br>£'000 |   |
| –                | 15,078           | 15,078  | –                | (10,759)         | (10,759)  |
| –                | 53               | 53  | –                | 289              | 289   |
| 3,802            | –                | 3,802   | 7,775            | –                | 7,775   |
| 3,802            | 15,131           | 18,933  | 7,775            | (10,470)         | (2,695)   |
| (397)            | (595)            | (992)   | (856)            | (1,283)          | (2,139)   |
| (241)            | –                | (241)   | (545)            | –                | (545)   |
| 3,164            | 14,536           | 17,700  | 6,374            | (11,753)         | (5,379)   |
| (225)            | 197              | (28)  | (525)            | 425              | (100)   |
| 2,939            | 14,733           | 17,672  | 5,849            | (11,328)         | (5,479)   |
| 33.11p           | 166.00p          | 199.11p   | 59.12p           | (114.49)p        | (55.37)p  |

## Statement of Changes in Equity (unaudited)

### for the six months ended 5 October 2020

|  | Called-up<br>Share<br>capital<br>£'000 | Share<br>premium<br>account<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserve*<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|--------------------------------------|---|------------------------------|-----------------------------|----------------|
| Balance at 6 April 2020  | 2,903                                  | 362,726                              | 16  | 97,081                       | 7,333                       | 470,059        |
| Net return attributable to equity shareholders and total comprehensive income for the period | –                                      | –                                    | –   | 39,057                       | 3,160                       | 42,217         |
| New shares issued (note 6)   | 178                                    | 31,457                               | –   | –                            | –                           | 31,635         |
| Shares re-issued from treasury (note 6)  | –                                      | 308                                  | –   | 4,041                        | –                           | 4,349          |
| Dividends paid (note 4)  | –                                      | –                                    | –   | –                            | (4,901)                     | (4,901)        |
| Total transactions with owners recognised directly in equity                                 | 178                                    | 31,765                               | –   | 4,041                        | (4,901)                     | 31,083         |
| Balance at 5 October 2020  | 3,081                                  | 394,491                              | 16  | 140,179                      | 5,592                       | 543,359        |

### for the six months ended 5 October 2019

|  | Called-up<br>Share<br>capital<br>£'000 | Share<br>premium<br>account<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserve*<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|--------------------------------------|---|------------------------------|-----------------------------|----------------|
| Balance at 6 April 2019  | 1,972                                  | 203,043                              | 16  | 112,450                      | 4,447                       | 321,928        |
| Net return attributable to equity shareholders and total comprehensive income for the period | –                                      | –                                    | –   | 14,733                       | 2,939                       | 17,672         |
| New shares issued (note 6)   | 588                                    | 99,891                               | –   | –                            | –                           | 100,479        |
| Dividends paid (note 4)  | –                                      | –                                    | –   | –                            | (2,964)                     | (2,964)        |
| Total transactions with owners recognised directly in equity                                 | 588                                    | 99,891                               | –   | –                            | (2,964)                     | 97,515         |
| Balance at 5 October 2019  | 2,560                                  | 302,934                              | 16  | 127,183                      | 4,422                       | 437,115        |

\* The Capital reserve balance at 5 October 2020 includes unrealised gains on fixed asset investments of £28,718,000 (5 October 2019 – gains of £29,946,000 and 5 April 2020 – losses of £5,288,000).

# Statement of Financial Position (unaudited)

## at 5 October 2020

|   | (unaudited)<br>5 October<br>2020<br>£'000 | (unaudited)<br>5 October<br>2019<br>£'000 | (audited)<br>5 April<br>2020<br>£'000 |
|---|---|---|---------------------------------------|
| <b>Fixed assets</b>                                   |   |   |                                       |
| Investments held at fair value through profit or loss | <b>509,624</b>                            | 427,644                                   | 444,851                               |
| <b>Current assets</b>                                 |   |   |                                       |
| Debtors   | <b>2,527</b>                              | 2,430                                     | 2,214                                 |
| Cash at bank and in hand                              | <b>39,314</b>                             | 12,221                                    | 33,641                                |
|   | <b>41,841</b>                             | 14,651                                    | 35,855                                |
| <b>Creditors: amounts falling due within one year</b> | <b>(8,106)</b>                            | (5,180)                                   | (10,647)                              |
| <b>Net current assets</b>                             | <b>33,735</b>                             | 9,471                                     | 25,208                                |
| <b>Total assets less current liabilities</b>          | <b>543,359</b>                            | 437,115                                   | 470,059                               |
| <b>Capital and reserves</b>                           |   |   |                                       |
| Called-up share capital                               | <b>3,081</b>                              | 2,560                                     | 2,903                                 |
| Share premium account                                 | <b>394,491</b>                            | 302,934                                   | 362,726                               |
| Capital redemption reserve                            | <b>16</b>                                 | 16  | 16                                    |
| Capital reserve                                       | <b>140,179</b>                            | 127,183                                   | 97,081                                |
| Revenue reserve                                       | <b>5,592</b>                              | 4,422                                     | 7,333                                 |
| <b>Total equity shareholders' funds</b>               | <b>543,359</b>                            | 437,115                                   | 470,059                               |
| <b>Net asset value per Ordinary share</b>             | <b>4,409.0p</b>                           | 4,268.3p                                  | 4,084.2p                              |

The Half-Year Financial Report for the six months ended 5 October 2020 was approved by the Board of Directors on 12 November 2020 and signed on its behalf by:

**Jean Matterson**

Chairman

12 November 2020

# Cash Flow Statement (unaudited)

for the six months ended 5 October 2020

|  | (unaudited)<br>6 months<br>ended<br>5 October<br>2020<br>£'000 | (unaudited)<br>6 months<br>ended<br>5 October<br>2019<br>£'000 | (audited)<br>Year<br>ended<br>5 April<br>2020<br>£'000 |
|--|--|--|--|
| <b>Net cash outflow from operations before dividends &amp; interest (note 5)</b> | <b>(1,665)</b>   | (1,125)  | (2,281)  |
| Dividends received   | <b>3,196</b>   | 2,335  | 4,696  |
| Interest received  | <b>1,885</b>   | 1,367  | 3,590  |
| <b>Net cash inflow from operating activities</b>                                 | <b>3,416</b>   | 2,577  | 6,005  |
| Payments to acquire investments  | <b>(178,212)</b>   | (198,864)  | (438,109)  |
| Receipts from sale of investments  | <b>149,755</b>   | 101,541  | 302,761  |
| <b>Net cash outflow from investing activities</b>                                | <b>(28,457)</b>  | (97,323)   | (135,348)  |
| Equity dividends paid  | <b>(4,901)</b>   | (2,964)  | (2,963)  |
| Repurchase of Ordinary shares  | –  | –  | (7,756)  |
| Net proceeds from the issue of Ordinary shares                                   | <b>35,615</b>  | 100,496  | 164,268  |
| <b>Net cash inflow from financing activities</b>                                 | <b>30,714</b>  | 97,532   | 153,549  |
| <b>Increase in cash and cash equivalents</b>                                     | <b>5,673</b>   | 2,786  | 24,206   |
| Cash and cash equivalents at start of period                                     | <b>33,641</b>  | 9,435  | 9,435  |
| Cash and cash equivalents at end of period                                       | <b>39,314</b>  | 12,221   | 33,641   |
| <b>Increase in cash and cash equivalents</b>                                     | <b>5,673</b>   | 2,786  | 24,206   |
| <b>Cash and cash equivalents consist of cash at bank, and in hand</b>            | <b>39,314</b>  | 12,221   | 33,641   |

# Notes to the Financial Statements

## 1 Basis of preparation

The condensed Financial Statements for the six months to 5 October 2020 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 October 2019 ("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 2020.

### 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)<br>6 months<br>ended<br>5 October<br>2020<br>£'000 | (unaudited)<br>6 months<br>ended<br>5 October<br>2019<br>£'000 | (audited)<br>Year<br>ended<br>5 April<br>2020<br>£'000 |
|--|--|--|--|
| <b>Income from investments</b>                         |  |  |  |
| Income from UK bonds                                   | 740  | 670  | 1,452  |
| Income from UK equity and non-equity investments       | 2,563  | 1,496  | 3,950  |
| Income from overseas bonds                             | 991  | 736  | 1,506  |
| Income from overseas equity and non-equity investments | 639  | 900  | 867  |
| Total income   | <b>4,933</b>   | 3,802  | 7,775  |

## 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 11,876,181 (5 October 2019: 8,875,187, 5 April 2020: 9,894,077).

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

## Notes to the Financial Statements (continued)

### 4 Dividends paid

|  | (unaudited)<br>6 months<br>ended<br>5 October<br>2020<br>£'000 | (unaudited)<br>6 months<br>ended<br>5 October<br>2019<br>£'000 | (audited)<br>Year<br>ended<br>5 April<br>2020<br>£'000 |
|--|--|--|--|
| 2019 Dividend paid 19 July 2019 (35.0p per share)* | –  | 2,964  | 2,963  |
| 2020 Dividend paid 17 July 2020 (42.0p per share)* | <b>4,901</b>   | –  | –  |

\* The dividend of 42.0p per share (2019: 35.0p per share) paid in respect of the year ended 5 April 2020 comprised an increase in annual dividend to 25.0p per share (2019: 23.0p per share) plus a special dividend of 17.0p per share (2019: 12.0p per share).

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

|   | (unaudited)<br>6 months<br>ended<br>5 October<br>2020<br>£'000 | (unaudited)<br>6 months<br>ended<br>5 October<br>2019<br>£'000 | (audited)<br>Year<br>ended<br>5 April<br>2020<br>£'000 |
|---|--|--|--|
| Net return on ordinary activities before taxation               | <b>42,428</b>  | 17,700   | (5,379)  |
| Less capital (gain)/loss on ordinary activities before taxation | <b>(39,057)</b>  | (14,536)   | 11,753   |
| Increase in prepayments and accrued income                      | <b>(44)</b>  | –  | (28)   |
| Increase in accruals and deferred income                        | <b>20</b>  | 66   | 165  |
| Management fees charged to capital                              | –  | (595)  | (1,283)  |
| Overseas withholding tax  | <b>(16)</b>  | (28)   | (36)   |
| (Increase)/decrease in recoverable UK taxation                  | <b>(3)</b>   | 17   | 13   |
| Dividends received  | <b>(3,202)</b>   | (2,396)  | (4,817)  |
| Interest received   | <b>(1,732)</b>   | (1,406)  | (2,958)  |
| Realised (losses)/gains on foreign currency transactions        | <b>(59)</b>  | 53   | 289  |
| Net cash outflow from operations before dividends and interest  | <b>(1,665)</b>   | (1,125)  | (2,281)  |

# Notes to the Financial Statements (continued)

## 6 Ordinary shares

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During the period the Company issued 712,300 new Ordinary shares of 25p each for proceeds totalling £31,635,000 and re-issued 102,300 Ordinary shares from treasury for proceeds of £4,349,000 (period to 5 October 2019: 2,354,430 new Ordinary shares of 25p each issued for proceeds totalling £100,479,000, year to 5 April 2020: 3,724,974 new Ordinary shares of 25p each issued for proceeds totalling £160,345,000).

During the period the Company did not repurchase any Ordinary shares (period to 5 October 2019: nil and year to 5 April 2020: 198,300). At 5 October 2020 no Ordinary shares were held in treasury (5 October 2019: nil and 5 April 2020: 102,300).

At 5 October 2020, there were 12,323,863 Ordinary shares in issue (5 October 2019: 10,241,019, 5 April 2020: 11,509,263).

## 7 General information

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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 2019 and 5 October 2020 have not been audited. The abridged financial information for the year ended 5 April 2020 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.

# 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 2020. There remain uncertainties for the UK economy and financial markets particularly arising from the ongoing impact of the Covid pandemic and the continued negotiation and implementation of Brexit following the end of the transition period on 31 December 2020. During the period, the directors continued to assess the ongoing implications for the Company as a result of the Covid pandemic, including the resilience of the reporting and control systems in place for the Manager and other key service providers. The directors continue to work with the agents and advisers to the Company to try and manage the risks, including emerging risks the best they can. The directors are not aware of any new material risks or uncertainties for the Company and its investors both for the period under review and moving forward other than those mentioned above.

## Related Party Transactions

Details of related party transactions are contained in the Annual Report issued in May 2020. 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 acknowledge that there are uncertainties which may affect the Company's ability to continue in the way it currently operates as a direct result of the Covid pandemic, as is the case with many investment funds and listed entities. However, the directors believe that the Company is well placed to manage its business risks and having reassessed the principal risks consider it appropriate to continue to adopt the going concern basis of accounting in preparing the interim financial information.

# 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 Guidance 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 Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

For and on behalf of the Board

**Jean Matterson**

Chairman

12 November 2020

# Shareholder Information

## 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. See page 20 for contact details.

## Capital Gains Tax

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

## Ongoing Charges

The Company publishes its ongoing charges ('ongoing cost ratio' or 'OCR') on two bases, the first excluding and the second including fees of collective funds invested in by the Company:

|                         | <b>OCR (excluding<br/>costs of<br/>underlying funds)</b> | <b>OCR (including<br/>costs of<br/>underlying funds)</b> |
|-------------------------|--|--|
| Six months ended        |  |  |
| 5 October 2020          | 0.61%  | 0.87%  |
| Year ended 5 April 2020 | 0.65%  | 0.91%  |

## Frequency of NAV Publication

Daily

## How to Invest

Via your bank, stockbroker or other financial adviser.

## Share Price

The Company's share price can be found on the London Stock Exchange website by using the Company's TIDM code 'CGT' within the price search facility. The share price is also available on the Company's website.

## Share Identification Codes

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

## Substantial Shareholdings

The Disclosure Guidance 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:

<https://www.fca.org.uk/markets/ukla/regulatory-disclosures/submit-investor-notification>

## Contacting the Board

Any shareholders wishing to communicate directly with the Board should do so via the Company Secretary. See page 20 for contact details.

# Corporate Information

## Directors

Miss J G K Matterson, Chairman  
Mr R Archibald  
Mr A R Laing  
Mr E G Meek (retired on 12 November 2020)  
Mr P Yates

## Company Secretary and Administrator

PATAC Limited  
28 Walker Street, Edinburgh EH3 7HR  
E-mail:  
[company.secretary@capitalgearingtrust.com](mailto:company.secretary@capitalgearingtrust.com)  
Telephone: 0131 378 0500

## Registered Office

Carson McDowell LLP,  
Murray House, Murray Street, Belfast BT1 6DN

## Company number

NI005574

## Company Website

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

## AIC

Association of Investment Companies  
[www.theaic.co.uk](http://www.theaic.co.uk)

## Investment Manager

CG Asset Management Limited  
25 Moorgate, London EC2R 6AY

## Registrar

Computershare Investor Services plc  
The Pavilions, Bridgewater Road,  
Bristol BS13 8AE  
Telephone: 0370 873 5864

## Depository, Custodian and Banker

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

## Corporate Stockbroker

JP Morgan Cazenove  
25 Bank Street, Canary Wharf,  
London E14 5JP

## Independent Auditors

BDO LLP  
150 Aldersgate Street  
London EC1A 4AB

## Beware of Share Fraud

Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These are typically from overseas 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares.

Shareholders may also be advised that there is an imminent offer for the Company, and the caller may offer to buy shares at significantly above the market price if an administration fee is paid. This is known as 'boiler room fraud'.

You can find more information about investment scams at the FCA website:  
[www.fca.org.uk/consumer/protect-yourself-scams](http://www.fca.org.uk/consumer/protect-yourself-scams). You can also call the FCA Consumer Helpline on 0800 111 6768.

**Capital Gearing Trust P.l.c.**

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