Aberforth Geared Income Trust plc

COMPANY NUMBER : 07189761

Annual Report and
Financial Statements

30 June 2016

Contents

Pre-investment Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their making an investment in the Company. The Company's Pre-investment Disclosure Document is available on the Company's website at www.aberforth.co.uk.

Strategic Report

The Board is pleased to present the Strategic Report (pages 1 to 16) which incorporates the Chairman's Statement.

The investment objective of Aberforth Geared Income Trust plc (AGIT) is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement of 159.7p per Share on the planned winding-up date on 30 June 2017.

Financial Highlights

Total Return Performance[1]

Periods to 30 June 2016	Total Assets[1]	Ordinary Share NAV[1]	Ordinary Share Share Price	ZDP Share NAV[1]	ZDP Share Share Price
1 Year	**(8.2%)**	**(14.5%)**	**(4.9%)**	**6.75%**	**3.0%**
Annualised					
3 years	11.0%	13.3%	16.7%	6.75%	4.0%
5 years	12.0%	15.1%	15.3%	6.75%	5.5%
Since Launch[1]	12.3%	15.7%	14.7%	6.75%	7.2%
Cumulative					
3 years	36.9%	45.3%	58.9%	21.6%	12.5%
5 years	76.3%	102.2%	104.1%	38.6%	30.4%
Since Launch[1]	104.5%	145.6%	133.8%	49.6%	53.8%

Ordinary Share

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium)[1]	Ordinary Dividends per Share	Special Dividends per Share	Retained Revenue per Share[1]	Ongoing Charges[1]	Gearing[1]
2016	**186.8p**	**172.5p**	**7.7%**	**9.0p**	**1.0p**	**6.4p**	**1.40%**	**50.6%**
2015	228.8p	191.0p	16.5%	8.0p	1.8p	4.8p	1.47%	39.6%
2014	200.0p	173.5p	13.2%	7.17p	1.2p	3.6p	1.40%	42.9%
Launch[1]	100.0p	100.0p	–	n/a	n/a	n/a	n/a	66.7%

Zero Dividend Preference Share (ZDP Share)

At 30 June	Net Asset Value per Share	Share Price	Discount/ (Premium)[1]	Projected Final Cumulative Cover[1]	Redemption Yield[1]
2016	**149.6p**	**153.8p**	**(2.7%)**	**2.6x**	**3.9%**
2015	140.2p	149.2p	(6.5%)	2.8x	3.4%
2014	131.3p	145.0p	(10.4%)	2.5x	3.3%
Launch[1]	100.0p	100.0p	–	1.4x	6.75%

Source: Aberforth Partners LLP

[1] Defined in the Glossary on page 56.

The valuation statistics above consisting of Redemption Yields and Final Cumulative Cover are projected, illustrative and do not represent profit forecasts. There is no guarantee these returns will be achieved.

Chairman's Statement

Performance

The remaining period of AGIT's planned life appears destined to be defined by political and constitutional uncertainty from which there are sure to flow both risks and opportunities. With "known unknowns" including the UK's future relationship with the European Union, Scotland's commitment to the UK, and the identity of the next US president, the level of populist challenge to the established order is surely higher than it has been for decades. That these questions are being asked against a backdrop of sluggish economic performance in many of the world's leading economies and continuing tensions in the Middle East merely exacerbates the pressure on financial markets.

The FTSE-All Share Index, which is representative of larger UK listed companies, turned around a decline, in total return terms, of 2.0% in the six months to 31 December 2015 and recorded a positive total return of 2.2% for the twelve months to 30 June 2016. In contrast, there was no such recovery in the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)), which defines AGIT's opportunity base of small UK quoted companies. Performance was weak in the first six months, declining by 1.0% in total return terms, and weaker still in the second half, closing 6.6% down for the year as a whole. Smaller companies tend to have a greater reliance on the domestic UK economy and also less exposure to the resources sector than large companies. These factors were helpful to the stockmarket performance of smaller companies in the first six months of the financial year under review. However, the rebound in resources in the second half and, more recently, the impact of the "Brexit" referendum outcome on domestically focused stocks explain the disappointing performance from smaller UK listed companies, both absolute and relative to their larger brethren.

Over the year to 30 June 2016, AGIT's total assets total return – essentially the ungeared return from the portfolio – was -8.2%. Whilst there are many factors at play, the Managers' tendency to find the greatest value opportunities within the smaller small companies, such that the portfolio has a greater exposure to those stocks than does the opportunity base, is significant in the context of this short term weakness. Applying a longer term perspective, in the period from 30 April 2010, when AGIT was launched, to 30 June 2016, the total return from the NSCI (XIC) has been 90.1%. Over the same period, AGIT's cumulative total assets total return has been 104.5%. On an annualised basis, this return is 12.3%, or 8.3% on a capital only basis excluding the contribution from income, and is well above the hurdle imposed by the ZDP Shares. This hurdle represents the rising entitlement due to the ZDP Shareholders, which increases at 6.75% per annum to culminate at 159.7p on 30 June 2017.

The existence of ZDP Shares creates a form of gearing on the Ordinary Shares. As a consequence, the NAV total return of the Ordinary Shares was -14.5% for the year to 30 June 2016. Since inception on 30 April 2010 to 30 June 2016, the cumulative NAV total return on the Ordinary Shares has been 145.6%, or 15.7% per annum.

Earnings and Dividends

Investment income over the period totalled £13.9m, which was 4% higher than the previous year's £13.3m. On the face of it then, the Company's revenue account enjoyed another good year in terms of dividends received from investee companies. However, this result does require some further explanation.

First, and as noted in the Managers' Report, dividend income has, again, been flattered by the receipt of a number of special dividends, though to a lesser extent than in the prior year. These special dividends are by their nature unpredictable and, while their occurrence within the small company universe has increased in recent years, there can be no assumption that AGIT will receive further special dividends in the final year of its planned life.

Secondly, dividend payments from four investee companies fell in late June 2016 rather than, as was forecast, in early July 2016. Other things remaining equal, this has had the effect of shifting £0.5 million of dividend income from the 2016/17 financial year in to 2015/16.

If investment income is adjusted to eliminate the impact of these factors, then the "underlying" growth rate was 11% year-on-year.

In view of this positive dividend experience, the Board has declared a second interim dividend of 6.3p per Ordinary Share for the year ended 30 June 2016. Together with the first interim dividend of 2.7p, the total underlying dividend with respect to the year is therefore 9.0p, which represents a 12.5% increase on the

Chairman's Statement

underlying dividend of 8.0p for the previous year. In addition, the Board has declared a special dividend of 1.0p per Ordinary Share, which largely reflects the contribution to AGIT's income from the special dividends received in the year from portfolio companies. The second interim dividend of 6.3p and the special dividend of 1.0p will be paid on 25 August 2016 to Ordinary Shareholders on the register on 5 August 2016. The ex dividend date is 4 August 2016.

After accounting for these dividends, AGIT's cumulative revenue reserves amounted to £7.0 million or 6.4p per Ordinary Share at the year end. In what remains of the Company's planned life, the Directors do not envisage a material change from the progressive dividend policy it has employed to date. To the extent that any element of the revenue reserves remains undistributed at the end of the Company's planned life then Ordinary Shareholders will receive value for this as part of the end of life proposals that the Board will present in due course.

Your Company operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Capita Registrars (www.capitaassetservices.com).

Annual General Meeting

The AGM will be held on 25 October 2016 at 2.00 p.m. at 14 Melville Street, Edinburgh EH3 7NS.

Outlook

The Company has a planned life lasting until 30 June 2017 and, accordingly, is now in its final year. In this context, the Board is obliged by the Company's Articles to convene a general meeting to propose that the Company be wound up on, or within the three months prior to, 30 June 2017. Before then, however, the Directors intend to examine means whereby holders of Ordinary Shares may effectively continue their investment while allowing the ZDP Shareholders to realise their investment. Whilst this might mean offering an alternative to cash in the form of shares in a successor or existing investment vehicle, nothing has yet been decided or, indeed, ruled out. The Board will seek specialist advice in due course and will also take account of feedback received from the Managers and Shareholders when developing proposals, which it expects to finalise during the second calendar quarter of 2017.

The period remaining of the Company's planned life does, of course, remain subject to external market influences, not least of which is the greater uncertainty to emerge from the EU referendum. Whilst firm predictions are therefore impossible, your Board is encouraged by the Managers' conviction as regards latent value within the portfolio, underpinned by continuing strong income returns from the asset class, and so believes that there is the prospect of delivering further value to Shareholders in what remains of the Company's planned life.

J.H. Cartwright

Jonathan Cartwright
Chairman
22 July 2016

jonathan.cartwright@aberforth.co.uk

Investment Objective, Policy and Strategy

Investment Objective

The investment objective is to provide Ordinary Shareholders with a high level of income, with the potential for income and capital growth, and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement of 159.7p on the planned winding-up date on 30 June 2017.

Investment Policy

The Company aims to achieve its objective by investing in a diversified portfolio (typically between 50 and 100 individual investments) of small UK quoted companies. Small UK quoted companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the London Stock Exchange's Main Market for listed securities by market capitalisation or companies in the NSCI (XIC). As at 1 January 2016 (the date of the last annual NSCI (XIC) rebalancing), the NSCI (XIC) consisted of 349 companies, with an aggregate market capitalisation of £150 billion. Its upper market capitalisation limit was £1.3 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within the definition of a small UK quoted company its securities will become candidates for sale.

The Company may, at time of purchase, invest up to 15% of its assets in any one security although, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis. The Company will not invest in any securities issued by other closed ended UK listed investment companies with the exception of real estate investment trusts (REITS) that are eligible to be included in the NSCI (XIC). As at 30 June 2016 no security had a value greater than 5% of total portfolio value.

Investment will only be made in companies with securities traded on the London Stock Exchange or, in limited circumstances, in AIM listed investments. AIM listed investments will only be held in the portfolio if they have given a formal commitment to move to the Main Market, or in the situation where an existing investee company has moved its listing from the Main Market to AIM.

The Managers will aim to keep the Company near to fully invested in equities or securities convertible to equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company does not intend to utilise any bank borrowings other than short-term overdraft or working capital facilities. The Directors expect that, in normal market conditions, bank borrowings will not exceed 2.5% of Total Assets. The Articles limit the level of such bank borrowings to a maximum of 5% of Total Assets at the time of drawdown. The Company has a gearing policy to maintain total gearing, including the ZDP Shares, below the total of: (i) the accrued capital entitlement of the ZDP Shares from time to time; plus (ii) 5% of its Total Assets at the time of drawdown. The Directors have delegated responsibility to the Managers for the operation of the Company's overdraft and working capital facilities within the above parameters. Subject to the prior approval of the Board of Directors the Company may use derivative instruments, such as financial futures and options, for the purposes of efficient portfolio management. It is not anticipated that regular use of derivatives will be made.

The Board believes that small UK quoted companies have the potential to generate capital and dividend growth, and to provide a positive total return over the long term. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

Investment Strategy

Aberforth Partners LLP (the Managers) adhere to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the average valuation metrics of the Company's holdings will usually be more attractive than those of the NSCI (XIC), the investment universe. While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Managers select companies for the portfolio on the basis of fundamental or "bottom-up" analysis. The disposition of the portfolio by sector is a result of "bottom-up" stock selection, though a "top-down" evaluation is undertaken regularly. Analysis involves scrutiny of businesses' financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold when their valuations reach targets determined by the Managers.

In order to improve the odds of achieving the investment objective, the Managers believe that the portfolio must be adequately differentiated from the NSCI (XIC), the investment universe. Therefore, within the diversification parameters described in Investment Policy, the Managers regularly review the level of differentiation, with the aim of achieving a high active weight for each holding within the portfolio.

Principal Risks

Principal Risks and Risk Management

The Directors have established an on-going process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the year and continues in place up to the date of this report. Investment in small companies is generally perceived to carry more risk than investment in large companies. By investing in a diversified portfolio the risk of investment in small companies should be lower than investing directly in an individual company.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised as follows:

(i) Investment policy/performance

The principal risks facing the Company are market related and include market price, credit, liquidity and interest rate risk. An explanation of these risks and how they are managed is set out in Note 20 to the financial statements on pages 51 to 53. The Board has outsourced portfolio management to experienced Managers and receives regular and detailed reports on investment performance.

(ii) Structural conflicts of interest

The different rights and expectations of the holders of Ordinary Shares and the holders of ZDP Shares may give rise to conflicts of interest between them. While the Company's investment objective and policy seeks to strike a balance between the interests of both classes of Shareholder, there can be no guarantee that such a balance will be achieved and maintained during the planned life of the Company.

(iii) Significant fall in investment income

A significant fall in investment income could lead to the inability to provide a high level of income and income growth. The Board has outsourced portfolio management to experienced Managers and receives regular and detailed reports on income performance together with income forecasts.

(iv) Managing regulatory and statutory changes

Breach of regulatory rules could lead to suspension of the Company's share price listings, financial penalties or a qualified audit report. Breach of section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on its capital gains. The Board reviews quarterly compliance reports from the Secretaries to monitor compliance with regulations.

(v) Loss of key investment personnel

The Board believes that a risk exists in the loss of key investment personnel at the Managers. The Board recognises the collegiate approach employed by the Managers mitigates this risk. Board members are in regular contact with the partners and staff of Aberforth Partners and monitor personnel changes.

(vi) Inability to provide ZDP Shareholders with 159.7p on wind-up

If the capital value of the Company's portfolio falls by more than 61.3% per annum compounded over the remainder of the planned life of the Company, the ZDP Shareholders will receive less than 159.7p per ZDP Share on the planned winding-up date. The Board reviews regular reports on the hurdle rate required to return 159.7p per ZDP Share on the planned winding-up date.

(vii) Significant failure in a key service provider

Failure of the Managers' key operational systems (i.e. accounting system, IT infrastructure) or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring, or potentially lead to misappropriation of assets. Aberforth Partners has a business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews regular reports on the internal controls of the Managers and other key third party service providers.

Viability Statement

Shareholders will be required to vote on proposals from the Directors, relating to the Company's planned life, on or before 30 June 2017. The nature of these proposals and the outcome of the vote represent material uncertainties in the context of assessing the prospects of the Company beyond 30 June 2017. Notwithstanding the outcome of the vote the Directors have assessed the viability of the Company over a five year period to June 2021. The assessment took account of the Company's financial position, its investment strategy, and the potential impact of the principal risks. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to June 2021. In making this assumption, the Directors took comfort from the results of stress testing that considered the impact of a number of severe market downturn scenarios on the Company's financial position and, in particular, its ability to settle projected liabilities of the Company as they fall due. The Directors determined that a five year period to June 2021 is an appropriate period for which to provide this statement as over this period there is not expected to be any significant change to the principal risks and to the adequacy of the mitigating controls in place. The appropriateness of five years is further supported by the relative simplicity of the business model, the resilience demonstrated by the stress testing and scenario planning, and the relatively low and predictable working capital requirements.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objectives against the following key performance indicators:

- Total Assets total return;
- Ordinary Share Net Asset Value total return;
- Ordinary Share Net Asset Value;
- Ordinary Share Price discount;
- Dividend per Ordinary Share;
- ZDP Share Net Asset Value;
- ZDP Share Projected Final Cumulative Cover; and
- Hurdle Rates.

A record of these measures is provided within Financial Highlights (page 1), Other Financial Information (page 7) and Hurdle Rates and Redemption Yields (below). Further analysis is provided within the Chairman's Statement (pages 2 to 3) and the Managers' Report (pages 8 to 11). The Managers' Report has been prepared by Aberforth Partners LLP and the Board endorses the analysis provided in respect of the key performance indicators.

Hurdle Rates & Redemption Yields

Hurdle Rates[1]

	Ordinary Shares Hurdle Rates to return[2]			ZDP Shares Hurdle rates to return
At 30 June	100p	Share Price	Zero Value	159.7p
2016	**(25.1%)**	**1.2%**	**(61.3%)**	**(61.3%)**
2015	(17.8%)	(1.4%)	(40.8%)	(40.8%)
2014	(8.8%)	0.9%	(26.8%)	(26.8%)
2013	(1.1%)	1.9%	(16.2%)	(16.2%)
2012	4.0%	3.1%	(8.9%)	(8.9%)
2011	2.5%	3.3%	(8.2%)	(8.2%)
Launch[1]	3.9%	n/a	(5.3%)	(5.3%)

Redemption Yields[1] as at 30 June 2016 (Ordinary Shares)

	Ordinary Share Redemption Yields[1] Dividend Growth (per annum)				
Capital Growth (per annum)	0.0%	+2.5%	+5.0%	+7.5%	Terminal NAV[1]
0%	6.0%	6.4%	6.7%	7.1%	169.2p
+2.5%	10.1%	10.5%	10.9%	11.3%	176.1p
+5.0%	14.3%	14.6%	15.0%	15.4%	183.0p
+7.5%	18.4%	18.8%	19.2%	19.5%	189.9p

[1] Defined in the Glossary on page 56.

Other Financial Information

	30 June 2016 £'000	30 June 2015 £'000	% Change
Shareholders' Funds:			
Ordinary Shares	**£204,582**	£250,511	-18.3%
ZDP Shares	**£109,235**	£102,315	+6.75%
Total	**£313,817**	£352,826	-11.1%
Market Capitalisation:			
Ordinary Shares	**£188,888**	£209,145	-9.7%
ZDP Shares	**£112,237**	£108,952	+3.0%
Total	**£301,125**	£318,097	-5.3%

Other Business Information

Board Diversity

The Company's policy on diversity is set out on page 24 within the Corporate Governance Report.

Social and Environmental Matters

The Company has no employees, property or activities outwith its investment management activities and as a consequence an environmental policy has limited application. The approach by the Company and the Managers to the UK Stewardship Code and Socially Responsible Investment is set out on page 23 within the Corporate Governance Report.

Managers' Report

Introduction

What was already proving a challenging penultimate financial year for AGIT became distinctly more so with the outcome of the EU referendum at the end of June. The year had commenced with familiar concerns about US and Chinese economic growth, which put pressure on the prices of both equities and commodities. At that point, the UK's domestic economy, supported by wage rises and buoyant consumer spending, appeared a haven of comparative tranquillity. This picture changed early in 2016 as a powerful rally got under way, led by the resources companies. At the same time concerns about the UK increased as the referendum campaign progressed and the chance of an "out" vote rose. Still, the eventual outcome was unexpected and initiated what could be a protracted period of intense uncertainty for the UK and for Europe more broadly. The consequent rise in risk aversion among investors was reflected in further falls in government bond yields, with the ten year gilt yield ending June at a historical low of 0.9%.

The net effect of these developments was a total return of 2.2% for the FTSE All-Share over the twelve months to 30 June 2016. This index, dominated by large companies, benefited from its substantial exposure to overseas earners and, in the second half of the financial year, to resources companies, though it also had to contend with the drag from banks in the wake of the "out" vote. Small companies have less exposure than large to both banks and resources, but they have a greater reliance on the domestic economy, which seems likely to experience a slowdown as a result of the referendum. Hence the NSCI (XIC), which represents AGIT's investment universe, experienced a total return of -6.6%. Against this challenging backdrop, AGIT's total asset total return was -8.2%. That entire decline came in the final month of the financial year as the stockmarket wrestled with the risk and then the reality of an "out" vote. This was clearly a disappointing result, which was amplified for Ordinary Shareholders by the gearing effect of the ZDP Shares: the Ordinary Share net asset value total return over the twelve months was -14.5%. The **Investment Performance** section of this report provides more details on AGIT's total asset total return performance.

The EU referendum, given its proximity and significance, inevitably dominates the current investment environment. It is probable that the heightened uncertainty that has come with the "out" vote will undermine the UK's economic growth in the near term at least. Small companies have less overseas exposure and so, all else being equal, would suffer more than their larger peers from a possible UK recession. The referendum result also ushers in an indeterminate period of intense uncertainty for financial markets. Crucial issues – such as government, the timescales for the exit itself, terms of trade, the make-up of the UK – are up in the air. Accordingly, it is difficult to argue that UK equities do not now merit lower valuations, even if, over the longer term, the "Brexiteers" are proved right in their belief that the economy has been stifled by EU membership.

Of course, the implications of the Brexit vote are not confined to the UK. Political and economic risk across Europe has risen as a result of the UK's decision: with the arguments of break-away parties in other countries now carrying more weight, the threat to the stability of the Eurozone, with its structural challenges, has undoubtedly risen. More broadly, Brexit may embolden populist anti-establishment movements around the world and confirms that politics is creating more volatility in equity valuations than at any time since the end of the Cold War.

Investment Performance

Over the twelve months to 30 June 2016, AGIT's total asset total return was -8.2%. The share prices of small companies were generally weak, with the NSCI (XIC), which represents AGIT's investment universe, delivering a total return of -6.6%. The following paragraphs describe and explain the most important influences on AGIT's performance.

Size

For reasons that are set out in the **Valuation** section of this report, AGIT's portfolio remains biased to the "smaller small" companies within the NSCI (XIC): its weighting in non FTSE 250 companies was 51% at the end of June against 37% for the investment universe. This positioning was modestly helpful in the twelve months to 30 June 2016, as may be demonstrated by comparing the total returns of the FTSE SmallCap index and the FTSE 250 index. The former was down by 3.7%, whereas the latter experienced a decline of 5.7%, which suggests that "smaller small" companies performed less badly.

Managers' Report

Style & sectors

The fortunes of Aberforth's value investment style were bound up with those of the resources sectors in the twelve months to 30 June 2016. This was because nearly all the resources companies within the NSCI (XIC) are presently classified as value stocks. Therefore, when the share prices of resources companies struggled in the first half of the financial year, the value style lagged growth. Conversely, a turn in stockmarket sentiment towards the resources sectors in February helped the performance of the value style in the second half. However, despite the resources stocks' rally, the value style lagged the growth style over the twelve months as a whole.

In an absolute performance sense, the fortunes of the resources stocks are of little relevance to AGIT. This is because small miners and oil companies often have weak cash flows as a result of large investment programmes and dividends are unusual. This means that it would have been difficult for AGIT to embrace the sector had the Managers possessed the foresight to identify its bounce, which commenced in mid February. There are additional considerations that render resources companies, especially the miners, a particular challenge for the Managers. Small cap miners are typically focused on one asset, which is often located in a part of the world that does not enjoy the established property rights of the UK. Moreover, the ownership structures of small resources companies are frequently such that corporate governance standards are in doubt. To be clear, none of these are reasons to justify ignoring the resources sector: the Managers carry out the analysis that they would on any company and AGIT does have exposure to four resources companies. However, the recent flurry of interest in the resources sector has not altered this approach and has not given extra impetus to increase exposure to that area of the market.

The EU referendum is also relevant to sector performance. The higher chance of a domestic recession and the weakness of sterling since the "out" vote have seen significant differentiation in sector performance: those parts of the market close to the domestic economy – the housebuilders, retailers and property companies – have been weaker than those parts with an overseas orientation that are beneficiaries of a weaker currency. The portfolio's exposure to the domestic economy is similar to that of the NSCI (XIC): companies in the portfolio derive 50% of their revenues from the UK against 54% for the index. In most cases, the stockmarket has been reasonably efficient and has already built the heightened risk faced by the domestic businesses into their valuations. However, there are anomalies and the Managers expect opportunities to arise among both the overseas and domestic earners.

Corporate activity

M&A and IPOs abounded in 2015, but the incidence of corporate activity diminished in the first half of 2016. Concerns about the EU referendum appear to be responsible: reluctance on the part of an overseas company to commit to acquiring sterling assets is understandable. In total, takeovers of 27 constituents of the NSCI (XIC) were completed in calendar 2015, whereas nine new bids were announced in the first half of calendar 2016. Of those nine, AGIT held two in its portfolio. The decline in bid activity is a hindrance to the Managers' value investment style: history suggests that corporate acquirers are often more prepared to recognise value than other stockmarket participants. While the uncertainty of Brexit complicates a recovery in M&A, the fall in sterling has rendered UK assets more affordable for overseas buyers. It is notable that there have been deal announcements since the referendum. As regards IPOs, there were 29 completed in calendar 2015 and eight in the first half of 2016. None of these eight were taken by AGIT: the Managers spent time to understand the underlying businesses but were dissuaded from investing by the valuations demanded by the vendors.

Income

With dividend growth of around 7%, the income performance of small companies remained strong through the twelve months to 30 June 2016. In contrast to that of the FTSE All-Share, the income generated from the NSCI (XIC) stands out for its good dividend cover – 2.9x against 1.5x – and for its low reliance on a handful of very large dividend payers. Despite the greater uncertainty associated with the EU referendum, it is likely that dividend growth across the NSCI (XIC) in calendar 2016 will for another year exceed the long term average of 2.5% in real terms and that companies will continue to supplement ordinary dividend payments with special dividends.

AGIT has benefited from these trends in the twelve months to 30 June 2016 and indeed since its inception. In the year under review, it received special dividends from six investee companies and, while there were several dividend cuts, these were out-weighed by dividend increases from the majority of the portfolio. However, it

Managers' Report

bears repeating that, in this world of zero or negative interest rate policy there is a clamouring for income. Company boards are alive to this and, in certain cases, their dividend decisions may have been influenced accordingly. The risk is that some of these decisions will prove to have been ill-judged when the next recession happens. Following the EU referendum, the test might now come sooner than previously expected.

Turnover

Defined as the lower of purchases and sales divided by the average month end asset value over the past twelve months, portfolio turnover in AGIT's financial year to 30 June 2016 was 26%. This compares with 28% in the previous year and, as was also the case then, was boosted by two situations in which AGIT may be considered a forced seller. First, takeovers of portfolio companies require the sale of the holdings to the acquirer. Second, companies that have become too large for the NSCI (XIC) on its annual rebalancing on 1 January become candidates for sale. With the impact of those situations excluded, the underlying rate of portfolio turnover was 13%.

Active share

This is a measure of how different a portfolio is from an index. The higher the active share ratio, the greater the difference. An index tracking fund would have a ratio of 0%, whereas a fund holding no index stocks would have a ratio of 100%. A higher ratio increases the probability that the portfolio will perform differently from the index, though it offers no guarantees as to direction. The Managers use active share as a tool to ensure that the portfolio does not become a closet index tracker and target a ratio of at least 70%. At 30 June 2016, the ratio was 78%.

Valuations

	30 June 2016		30 June 2015	
Characteristics	**AGIT**	**NSCI (XIC)**	AGIT	NSCI (XIC)
Number of companies	**72**	**339**	73	357
Weighted average market capitalisation	**£596m**	**£823m**	£763m	£874m
Price earnings (PE) ratio (historic)	**11.4x**	**12.4x**	13.9x	15.7x
Dividend yield (historic)	**4.2%**	**2.8%**	3.2%	2.4%
Dividend cover	**2.1x**	**2.9x**	2.2x	2.6x

The valuation metrics in the table above are consistent with the Managers' value investment style: the portfolio has a lower PE ratio and a higher dividend yield than the NSCI (XIC)'s. The historic PE ratio of the FTSE All-Share was 18.0x. Therefore, large companies presently command a substantial 45% PE premium to small, compared with a 9% premium on average over the past 25 years. The greater weighting of the resources sectors in the FTSE All-Share is influential: many resources companies are currently very highly rated as the stockmarket anticipates a recovery in profits.

EV/EBITA		**43 growth companies**	**240 other companies**	**Tracked Universe**	**Portfolio**
2016		15.6x	11.3x	12.0x	9.8x
2017	pre Brexit	13.8x	9.8x	10.4x	8.7x
	assuming recession	14.8x	11.5x	12.0x	9.9x

The table above examines the valuation of the portfolio and the tracked universe on the basis of the Managers' favoured metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Given the uncertainties of Brexit and the likelihood of a UK downturn, it shows two scenarios for 2017. The principal assumptions behind the recession scenario are that the downturn starts on 1 January 2017 and that the profits of domestic businesses decline by 25% on average. It can be inferred that this would result in roughly flat profits for the portfolio and the tracked universe as a whole, but that the 43 growth companies still make progress. This resilience on the part of the growth companies is precisely why they are accorded high valuations. However, this scenario still leaves growth companies on a 49% premium to the portfolio. This might suggest that recession risk is already substantially discounted in present valuations. A narrowing of that premium should be consistent with superior performance from the portfolio.

Managers' Report

Market capitalisation range:	< £100m	£100-250m	£250-500m	£500-750m	> £750m
Portfolio weight	4%	20%	24%	22%	31%
Tracked universe weight	1%	8%	20%	19%	52%
Tracked universe 2016 EV/EBITA	7.8x	8.8x	10.7x	11.5x	13.9x

The final valuation table examines the interplay of valuation and size. AGIT's portfolio has a lower exposure to the "larger small" companies within the NSCI (XIC). Higher weightings in the "smaller small" companies make up for this. The rationale for this positioning is clear from the final row: the "smaller small" companies are on substantially lower valuations, despite being anticipated to grow more quickly. From a long term perspective, this is an unusual state of affairs but has persisted for several years since the financial crisis. The explanation probably resides in a more pervasive and intense reluctance since the crisis to take on the risk of lower liquidity that comes with investment in "smaller small" companies. The Managers consider this to be anomalous and to represent a compelling opportunity, but, cognisant of the proximity of the planned wind-up date, have not tilted AGIT as far towards the "smaller small" companies as they might otherwise have done.

Outlook & conclusion

The modest valuations that characterise the portfolio, and indeed much of the UK small company universe, declined in the wake of the EU referendum. The coming months will determine whether investors in general deem these valuations to be sufficiently low to compensate for greater uncertainty. The "out" vote undeniably complicates the outlook for the UK economy and therefore for many small UK quoted companies. It comes at a time of a wide current account deficit and a still large public sector borrowing requirement. With interest rates already very low, the monetary policy response is limited, but a relaxation of the austerity strategy might allow fiscal policy to take the strain. Sterling has already offered some relief, but it would not surprise were the economy to enter recession as spending and investment decisions continue to be deferred.

This is a somewhat downbeat prospect for small companies. However, the passage of time will see today's uncertainties addressed, as has been seen already with the prompt appointment of a new prime minister. Moreover, it is worth recalling the nimbleness and resilience that small companies displayed in the last downturn eight years ago: they emerged from a global recession in a better state than they had entered it, to which their subsequent outstanding dividend performance attests. Beyond that, the structural advantages enjoyed by the UK, which have helped small companies generate such strong returns over the long term, remain largely intact: language, time-zone, property rights, corporate governance and, perhaps now debatably, political stability and openness.

Notwithstanding the ramifications of Brexit, the Managers believe that small companies can continue their long term record of strong returns. As a reminder, the NSCI (XIC) has seen £1,000 invested on 31 December 1990 grow to £13,545 on a total return basis, which compares with £8,351 for large companies. This superior performance has been achieved in a volatile fashion: were an investor to have missed the best five months for small companies in this period, the premium over large companies would be eliminated. This predicament for the small cap investor is demonstrated by the suddenness of the rebound in small company share prices during the last slowdown in 2009.

History is a useful guide but, with no precedent for Brexit, can offer no guarantees as to timing. An additional consideration is that AGIT's investment horizons are inevitably truncated by the approach of the planned wind-up date on 30 June 2017. However, valuations are already low and in many cases seem to have discounted the incremental risks to the UK economy in the wake of the "out" vote. Moreover, it would seem unlikely that a UK recession would reduce small company dividends to the extent seen in 2009's global downturn and so, in an investment world even more starved of income, the dividend characteristics of the asset class and indeed of AGIT might offer some support to valuations. As a consequence, the Managers are optimistic that AGIT's diversified portfolio of soundly financed businesses can generate a positive return in the remainder of its planned life.

Aberforth Partners LLP
Managers
22 July 2016

Thirty Largest Investments

As at 30 June 2016

No.	Company	£'000	% of Total	Business Activity
1	e2v technologies	11,987	3.9	Electronic components & subsystems
2	Hilton Food Group	10,525	3.4	Food manufacturer
3	Hogg Robinson Group	9,912	3.2	Travel & expense management
4	Centamin	9,194	3.0	Gold miner
5	Vesuvius	8,344	2.7	Metal flow engineering
6	Keller	7,992	2.6	Ground engineering services
7	International Personal Finance	7,684	2.5	Home credit provider
8	Ladbrokes	7,673	2.5	Bookmaker & online gaming
9	Novae Group	7,291	2.4	Lloyd's insurer
10	Morgan Advanced Materials	7,214	2.3	Manufacture of carbon & ceramic materials
	Top Ten Investments	**87,816**	**28.5**	
11	Northgate	7,098	2.3	Van rental
12	Go-Ahead Group	6,903	2.2	Bus & rail operator
13	National Express Group	6,862	2.2	Bus & rail operator
14	Connect Group	6,644	2.2	Newspaper distribution
15	Computacenter	6,586	2.1	IT services
16	De La Rue	6,328	2.1	Bank note printer
17	Brewin Dolphin Holdings	6,152	2.0	Private client fund manager
18	Galliford Try	6,018	2.0	Housebuilding & construction
19	TT Electronics	5,957	1.9	Sensors & other electronic components
20	Hansteen Holdings	5,747	1.9	Property - industrial
	Top Twenty Investments	**152,111**	**49.4**	
21	KCOM Group	5,622	1.8	Telecoms & related services
22	Vitec Group	5,620	1.8	Photographic & broadcast accessories
23	Assura	5,615	1.8	Property - healthcare
24	Shanks Group	5,462	1.8	Waste services
25	Bodycote	5,435	1.8	Engineering – heat treatment
26	RPS Group	5,135	1.7	Energy & environmental consulting
27	Premier Farnell	4,848	1.6	Electronic components distribution
28	Senior	4,836	1.6	Aerospace & automotive engineering
29	Paypoint	4,768	1.5	Alternative payment services
30	Pendragon	4,396	1.4	Automotive retailer
	Top Thirty Investments	**203,848**	**66.2**	
	Other Investments (42)	104,227	33.8	
	Total Investments	**308,075**	**100.0**	
	Net Liabilities	(103,493)		
	Total Net Assets	**204,582**		

Investment Portfolio

As at 30 June 2016

Sector/Security	Business Activity	Value £'000	% of Total Investments
Oil & Gas Producers		**3,738**	**1.2**
Nostrum Oil & Gas	Oil & gas exploration & production	1,472	0.5
SOCO International	Oil & gas exploration & production	2,266	0.7
Chemicals		**2,484**	**0.8**
Carclo	Technical plastic products	2,484	0.8
Mining		**11,961**	**3.9**
Anglo Pacific Group	Natural resources royalties	2,767	0.9
Centamin	Gold miner	9,194	3.0
Construction & Materials		**13,379**	**4.3**
Eurocell	Manufacture of UPVC building products	2,878	0.9
Keller	Ground engineering services	7,992	2.6
Low & Bonar	Manufacture of industrial textiles	2,509	0.8
Aerospace & Defence		**8,865**	**2.9**
QinetiQ Group	R&D and consulting services	4,029	1.3
Senior	Aerospace & automotive engineering	4,836	1.6
General Industrials		**9,901**	**3.2**
RPC Group	Plastic packaging	1,557	0.5
Vesuvius	Metal flow engineering	8,344	2.7
Electronic & Electrical Equipment		**25,158**	**8.1**
e2v technologies	Electronic components & subsystems	11,987	3.9
Morgan Advanced Materials	Manufacture of carbon & ceramic materials	7,214	2.3
TT Electronics	Sensors & other electronic components	5,957	1.9
Industrial Engineering		**15,220**	**5.0**
Bodycote	Engineering - heat treatment	5,435	1.8
Castings	Engineering - automotive castings	4,165	1.4
Vitec Group	Photographic & broadcast accessories	5,620	1.8
Industrial Transportation		**3,789**	**1.2**
Clarkson	Ship broking & related services	1,986	0.6
Wincanton	Logistics	1,803	0.6
Support Services		**57,354**	**18.8**
Brammer	Industrial components distribution	164	0.1
Connect Group	Newspaper distribution	6,644	2.2
De La Rue	Bank note printer	6,328	2.1
Electrocomponents	Electronic components distribution	3,253	1.1
Hogg Robinson Group	Travel & expense management	9,912	3.2
Management Consulting Group	Management consultancy	1,052	0.3
Northgate	Van rental	7,098	2.3
Paypoint	Alternative payment services	4,768	1.5
Premier Farnell	Electronic components distribution	4,848	1.6
RPS Group	Energy & environmental consulting	5,135	1.7
Shanks Group[1]	Waste services	5,462	1.8
SThree	Recruitment	2,690	0.9

Investment Portfolio

As at 30 June 2016

Sector/Security	Business Activity	Value as at 30 June 2016 £'000	% of Total Investments
Food Producers		**10,745**	**3.5**
Hilton Food Group	Food manufacturer	10,525	3.4
R.E.A. Holdings	Palm oil producer	220	0.1
Household Goods & Home Construction		**9,954**	**3.3**
Bovis Homes Group	Housebuilding	3,936	1.3
Galliford Try	Housebuilding & construction	6,018	2.0
Leisure Goods		**2,447**	**0.8**
Games Workshop Group	Tabletop fantasy wargames	2,447	0.8
Food & Drug Retailers		**3,100**	**1.0**
McColl's Retail Group	Retailing - convenience stores	3,100	1.0
General Retailers		**11,937**	**3.9**
DFS	Furniture retailer	2,462	0.8
Halfords Group	Automotive & cycling products retailer	3,685	1.2
N Brown Group	Catalogue retailer	1,394	0.5
Pendragon	Automotive retailer	4,396	1.4
Media		**10,942**	**3.5**
Centaur	Media B2B publishing	1,750	0.6
Future	Special interest consumer publisher	897	0.3
Huntsworth	Public relations	2,917	0.9
ITE Group	Exhibitions & conferences	1,601	0.5
Trinity Mirror	UK newspaper publisher	3,777	1.2
Travel & Leisure		**27,339**	**8.8**
Air Partner	Aircraft charter	1,565	0.5
Go-Ahead Group	Bus & rail operator	6,903	2.2
Ladbrokes	Bookmaker & online gaming	7,673	2.5
National Express Group	Bus & rail operator	6,862	2.2
Restaurant Group	Restaurant operator	2,680	0.9
Revolution Bars Group	Managed pub operator	1,656	0.5
Fixed Line Telecommunications		**5,622**	**1.8**
KCOM Group	Telecoms & related services	5,622	1.8
Nonlife Insurance		**7,291**	**2.4**
Novae Group	Lloyd's insurer	7,291	2.4
Life Insurance		**5,018**	**1.6**
Hansard Global	Life assurance savings products	3,010	0.9
JRP Group	Individually underwritten annuities	2,008	0.7
Real Estate Investment & Services		**3,544**	**1.1**
Countrywide	Property - estate agency	1,959	0.6
U and I Group	*Property - investment & development*	1,585	0.5
Real Estate Investment Trusts		**14,589**	**4.7**
Assura	Property - healthcare	5,615	1.8
Hansteen Holdings	Property - industrial	5,747	1.9
McKay Securities	Property - London & South East offices	3,227	1.0

Investment Portfolio
As at 30 June 2016

Sector/Security	Business Activity	£'000	% of Total Investments
Financial Services		**24,190**	**7.9**
Brewin Dolphin Holdings	Private client fund manager	6,152	2.0
Charles Stanley Group	Private client fund manager	2,628	0.9
International Personal Finance	Home credit provider	7,684	2.5
John Laing Group	Infrastructure investment	3,396	1.1
Paragon Group	Specialist lender	4,330	1.4
Software & Computer Services		**11,846**	**3.8**
Computacenter	IT services	6,586	2.1
Microgen	Software - workflow & financial services	2,300	0.7
RM	IT services for schools	2,960	1.0
Technology Hardware & Equipment		**7,662**	**2.5**
Laird	Electronic systems & controls	4,170	1.4
Spirent Communications	Telecoms test equipment	3,492	1.1
Total Investments (all equities)		**308,075**	**100.0**

(1) Shanks Group's listing was suspended as at 30 June 2016 and its shares were fair valued at 70.3p by reference to the last traded price and subsequent market movements. Its share dealings recommenced on 7 July 2016.

Other Portfolio Information

Summary of Material Investment Transactions[1]
For the year ended 30 June 2016

Purchases	Cost £'000	Sales	Proceeds £'000
Northgate	5,787	RPC Group	18,538
Senior	5,313	JD Sports Fashion	17,533
Home Retail Group	4,437	Chime Communications	6,923
Keller	4,296	Home Retail Group	6,168
Paypoint	3,949	QinetiQ Group	5,379
De La Rue	3,881	Hill & Smith Holdings	5,177
Halfords Group	3,848	Card Factory	5,094
Bodycote	3,817	Synthomer	4,812
Ladbrokes	3,440	Phoenix IT Group	3,763
John Laing Group	3,121	Anite	3,564
Restaurant Group	2,935	JRP Group	2,927
Pendragon	2,847	Premier Farnell	1,858
JRP Group	2,583	Acal	1,585
International Personal Finance	2,578	Chemring Group	1,338
N Brown Group	2,428	Xchanging	1,264
Paragon Group	2,057	Promethean World	1,188
Spirent Communications	2,001	Rank Group	1,188
Premier Farnell	1,931	Novae Group	852
U and I Group	1,916	e2v technologies	746
Wincanton	1,881	River & Mercantile	354
Other Purchases	22,954	Other Sales	678
Total Cost of Purchases	**88,000**	**Total Proceeds of Sales**	**90,929**

[1] Includes transaction costs of £800,000.

Other Portfolio Information

FTSE Industry Classification Exposure Analysis

	← 30 June 2015 →				← 30 June 2016 →	
Sector	Portfolio Weight %	Portfolio Valuation £'000	Net Purchases/ (Sales)[1] £'000	Net Appreciation/ (Depreciation)[1] £'000	**Portfolio Valuation £'000**	**Portfolio Weight %**
Oil & Gas	1.2	4,338	1,143	(1,743)	**3,738**	**1.2**
Basic Materials	3.4	11,814	(2,572)	5,203	**14,445**	**4.7**
Industrials	41.7	146,151	3,295	(15,780)	**133,666**	**43.4**
Consumer Goods	8.2	28,769	720	(6,343)	**23,146**	**7.5**
Health Care	–	–	–	–	**–**	**–**
Consumer Services	20.2	70,573	(11,332)	(5,924)	**53,317**	**17.3**
Telecommunications	1.5	5,191	(258)	689	**5,622**	**1.8**
Utilities	–	–	–	–	**–**	**–**
Financials	16.3	56,874	11,594	(13,835)	**54,633**	**17.8**
Technology	7.5	26,115	(5,519)	(1,088)	**19,508**	**6.3**
	100.0	349,825	(2,929)	(38,821)	**308,075**	**100.0**

FTSE Index Classification Exposure Analysis

	← 30 June 2015 →			**← 30 June 2016 →**		
Index Classification	Number of Companies	Portfolio Valuation £'000	Weight %	**Number of Companies**	**Portfolio Valuation £'000**	**Weight %**
FTSE 100	–	–	–	**–**	**–**	**–**
FTSE 250	27	178,380	51.0	**31**	**152,265**	**49.4**
FTSE SmallCap	34	149,624	42.8	**24**	**106,237**	**34.5**
FTSE Fledgling	6	7,201	2.0	**7**	**11,502**	**3.7**
Other	6	14,620	4.2	**10**	**38,071**	**12.4**
	73	349,825	100.0	**72**	**308,075**	**100.0**

Active Share & Portfolio Turnover

At 30 June	**Active Share[2]**	**Portfolio Turnover[2]**
2016	**78%**	**26%**
2015	75%	28%
2014	75%	24%
2013	75%	32%
2012	79%	24%
2011	79%	27%

[1] Includes transaction costs of £800,000.
[2] Defined in the Glossary on page 56.

The Strategic Report, contained on pages 1 to 16, has been approved by the Board of Directors on 22 July 2016 and signed on its behalf by:

Jonathan Cartwright
Chairman

Governance Report

Board of Directors

Jonathan Cartwright (Chairman) FCA

Appointed: 30 March 2010

Jonathan Cartwright is a Chartered Accountant and is a former Finance Director of Caledonia Investments plc having retired in 2009. He joined Caledonia Investments plc, one of the UK's largest investment trusts, in 1989 having previously held the role of Financial Controller at Hanson plc and qualifying as a Chartered Accountant with KPMG. He is a non-executive Director of The Income & Growth VCT plc and Chairman of BlackRock Income & Growth Investment Trust plc.

Michael Greig FCMA, MA, MSc

Appointed: 30 March 2010

Michael Greig is Chairman of the Audit Committee. He is a Chartered Management Accountant and was until March 2010 the Chief Financial Officer of RM plc. Prior to joining RM plc as Finance Director in 1989, he was Finance Director at Case Group plc. He is a former non-executive Director of CODA plc and Comino Group plc.

Dominic Fisher OBE

Appointed: 30 March 2010

Dominic Fisher is a member of the Audit Committee. He is the founder of Thistledown Investment Management Ltd and has worked as an investment manager since 1989. From 1992 to 2001 he worked for Mercury Asset Management (subsequently Merrill Lynch Investment Managers) heading the charities division responsible for management of £2.4 billion of funds and was a member of the smaller companies team.

Graham Menzies BSc, MSc

Appointed: 15 October 2010

Graham Menzies spent fourteen years from 1985 until 1999 at Adwest Automotive plc, the last nine years as Group CEO. From 2000 until 2008, he was Group CEO of Senior plc. He is also a non-executive Director of RLC (UK) Ltd, a privately owned aerospace manufacturing group.

John Richards CA

Appointed: 12 August 2011

John Richards is a member of the Audit Committee and is a Chartered Accountant. He spent 26 years at The Miller Group Limited and was Group Finance Director from 1994 to 2013. He was a Director of Aberforth Geared Capital & Income Trust plc from 2003 until August 2011 and chaired its Audit and Management Engagement Committee from 2004.

Directors' Report

The Directors present their Annual Report together with the audited financial statements for the year ended 30 June 2016.

Investment Objective, Investment Policy, Investment Strategy and Risks

The Investment Objective, Investment Policy, Investment Strategy and Risks are explained in the Strategic Report on pages 4 to 5.

Return and Dividends

The total return attributable to Ordinary Shareholders for the year ended 30 June 2016 was a loss of £34,979,000 (2015: gain of £40,829,000). As at 30 June 2016 the net asset value per Ordinary Share was 186.83p (2015: 228.78p) and per ZDP Share was 149.64p (2015: 140.16p).

Your Board is pleased to declare a second interim dividend of 6.3p (2015: 5.5p) per Ordinary Share and a special dividend of 1.0p (2015: 1.8p) per Ordinary Share, which results in total dividends for the year ended 30 June 2016 of 10.0p (2015: 9.8p) per Ordinary Share. The second interim dividend and the special dividend will be paid on 25 August 2016 to Ordinary Shareholders on the register at close of business on 5 August 2016. The first interim dividend of 2.7p (2015: 2.5p) per Ordinary Share was paid on 26 February 2016.

Directors

The Directors of the Company during the financial year are listed on page 17. Further information concerning the Board and their responsibilities can be found in the Corporate Governance Report, which forms part of this Directors' Report.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. In common with the majority of Investment Trusts, the Company has neither executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial, depositary and registrar activities of the Company.

Michael Greig and John Richards retire as Directors at the Annual General Meeting to be held on 25 October 2016 and, being eligible, they offer themselves for re-election. Their biographical details are shown on page 17. The Board believes that both Michael Greig and John Richards continue to be effective in their role as Chairman of the Audit Committee and non-executive Director respectively, bringing a wealth of knowledge and experience and recommends their re-election to Shareholders.

Details of Directors' remuneration and shareholdings are shown within the Directors' Remuneration Report on pages 31 and 32.

Company Status

The Company is registered as a public limited company and is an investment company as defined by Section 833 of the Companies Act 2006. The Directors are of the opinion that the Company has conducted its affairs during the year ended 30 June 2016 so as to maintain approval as an Investment Trust under section 1158 of the Corporation Tax Act 2010.

The Company has share capital consisting of Ordinary Shares and Zero Dividend Preference Shares (ZDP Shares). The Company is listed and its two share classes trade on the London Stock Exchange. Furthermore the Company is subject to the laws and regulations relating to UK listed companies.

The Company is a member of the Association of Investment Companies (AIC).

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an Investment Trust. In respect of the year ended 30 June 2016, the main qualifying requirements included:

- the Company must invest in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds;
- the Company's Shares are listed on a regulated market such as the London Stock Exchange;
- the Company must not retain in respect of each accounting period more than 15% of its total income; and
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an Investment Trust for accounting periods commencing on or after 1 July 2012 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an Investment Trust.

Directors' Report

Duration of the Company

The Company has a planned life lasting until 30 June 2017. The Directors are required by the Company's Articles of Association to convene a general meeting of the Company on, or within the three months prior to 30 June 2017, at which a special resolution will be proposed to wind up the Company voluntarily by not later than the planned winding-up date. As these arrangements are designed to ensure that the ZDP Shareholders will be entitled to realise their investment, weighted voting provisions shall apply so as to ensure that this resolution will be passed if any Shareholder votes in favour. However, before this date, the Directors will examine means whereby holders of Ordinary Shares may effectively continue their investment while allowing the ZDP Shareholders to realise their investment. The Directors may be released from the obligation to call a general meeting if a special resolution has been passed to that effect not later than 30 June 2017.

Investment Managers

The Company appointed Aberforth Partners LLP (Aberforth Partners or the Managers) as Investment Managers and Company Secretaries at its launch in April 2010.

In accordance with the Alternative Investment Fund Managers Directive (AIFMD) the Company, with effect from 1 July 2014, appointed Aberforth Partners as its Alternative Investment Fund Manager (AIFM).

Aberforth Partners provides investment management, administration and company secretarial services to the Company. Aberforth Partners was formed in 1990 and is an investment management firm providing institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Funds under the management of Aberforth Partners as at 30 June 2016 totalled around £1.9bn. Aberforth Partners is wholly owned by five partners, four of whom are fund managers. The Company's portfolio is collectively managed by Aberforth Partners' investment management team of seven fund managers and further information on the partners and the investment team is available at www.aberforth.co.uk. The services provided by Aberforth Partners can be terminated by either party at any time by giving six months' notice of termination.

During the year ended 30 June 2016 the management fee received by Aberforth Partners totalled £2,904,000 (2015: £2,875,000). In respect of the year ended 30 June 2016 the management fee equalled the sum of:

- 0.9% of the Company's net assets attributable to Ordinary Shareholders; and
- 5% of the total income (excluding any tax credit); and
- base fee of £70,000.

The management fee is calculated on a quarterly basis and is paid in advance. The base fee is adjusted annually in line with the Retail Prices Index. The management fee is charged 70% to capital reserves and 30% to the revenue account.

The Board considers the Company's investment management and secretarial arrangements on an on-going basis and conducts a formal review annually. The Board considers the following topics in its review: investment performance in relation to the investment objective; the continuity of personnel managing the assets and reporting to the Board; the level of service provided in terms of the accuracy and timeliness of reports to the Board; and the frequency and quality of both verbal and written communications with Shareholders. Following the most recent review the Board is of the opinion that the continued appointment of Aberforth Partners as Managers, on the terms agreed, is in the best interests of Shareholders as a whole.

Depositary

National Westminster Bank plc (NatWest) was appointed with effect from 1 July 2014 to carry out the duties of Depositary as specified in the AIFMD in relation to the Company, including:

- holding or controlling all assets of the Company which are entrusted to it for safekeeping;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Managers.

In carrying out such duties, the Depositary is required to act in the best interests of the Shareholders of the Company. NatWest is contractually liable to the Company for the loss of any assets entrusted to it and is also liable to the Company for all other losses suffered as a result of the Depositary's fraud, negligence and/or failure to fulfil its duties properly.

NatWest receives an annual fee, payable quarterly in arrears, of 0.0125% of the net assets of the Company and their appointment may be terminated at any time by giving at least six months' notice. A Depositary may only

Directors' Report

be removed from office when a new Depositary is appointed by the Company. The Depositary has delegated the custody function to The Northern Trust Company.

Overdraft facility

The Company has a £2 million overdraft facility with The Royal Bank of Scotland plc, which is subject to an annual credit evaluation. The interest rate applying to overdrawn balances is 2.25% over the UK Base Rate. In addition a quarterly arrangement fee was incurred in respect of the facility. During the year ended 30 June 2016 the highest utilisation of the overdraft facility was £1.0 million (2015: £1.7 million).

Dividend Policy

To maintain its Investment Trust status the Company, amongst other conditions, must not retain more than 15% of its total income which ordinarily requires a significant proportion of the Company's total income to be distributed as dividends. The Company's dividend policy is to pay two dividends in respect of each financial year: a first interim dividend is paid in February and a second interim dividend is paid in August. A second interim dividend is paid rather than a final dividend in order to expedite the disbursement for the benefit of Shareholders.

Capital Structure

The Company has two classes of Shares. At 30 June 2016 the Company's share capital consisted of Ordinary Shares, of which 109.5 million were issued, allotted and fully paid and, ZDP Shares, of which 73 million were issued, allotted and fully paid. The Ordinary Shares represent 60% of the Company's issued share capital and the ZDP Shares represent 40% of the Company's issued share capital. No Shares were held in treasury as at 30 June 2016.

Ordinary Shares

Ordinary Shareholders are entitled to the net assets of the Company on a winding-up, after all liabilities of the Company have been settled and the entitlements of the ZDP Shares have been met. In addition, Ordinary Shareholders will be entitled on a winding-up to receive any undistributed revenue reserves of the Company, which will be paid in the form of a pre-liquidation dividend or during the course of the liquidation, subject to all creditors of the Company having been paid out in full and even if the cover on the ZDP Shares is at the time less than one. The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares will be geared by the rising capital entitlements of the ZDP Shares. Accordingly, the Ordinary Shares should be regarded as carrying above average risk.

Zero Dividend Preference Shares

The ZDP Shares were issued with a targeted final capital entitlement of 159.7p per ZDP Share on the planned winding-up date of 30 June 2017. This represents a redemption yield of 6.75% per annum over the life of the ZDP Shares, based on the issue price of 100p at launch on 30 April 2010. Under current legislation, the increase from the Issue Price to 159.7p per ZDP Share will generally be treated as a capital gain for UK tax purposes. The holders of ZDP Shares are not entitled to receive dividend payments. ZDP Shares have been recorded as a liability in the Company's Balance Sheet.

Going Concern

In accordance with the report "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the Financial Reporting Council in September 2014, the Directors have undertaken and documented an assessment of whether it is appropriate for the Company to continue to adopt the going concern basis of accounting and the Directors considered all available information when undertaking the assessment.

In particular the Directors considered the implications of the proximity to the planned winding-up date of 30 June 2017 and that Shareholders will have a vote on proposals relating to the Company's planned life, on or within the three months prior to 30 June 2017. The Directors also considered the Company's investment objective, policy and strategy, together with the factors likely to affect its development, performance and position, which are set out in the Strategic Report. The Annual Report also includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet funding requirements.

Directors' Report

Notwithstanding the Company's planned life the Directors consider that the Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and that the Company is well placed to continue to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future. The Directors also considered the investment outlook, the objectives of both classes of Shareholder, potential sources of funding to finance the repayment of the entitlement due to the ZDP Shareholders and other future cash flows of the Company. Taking into consideration all available information the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis of accounting.

The nature of any proposals that may be presented by the Directors relating to the Company's planned life which the Shareholders will be required to vote on and the outcome of the vote on any such proposals, represent material uncertainties in the context of assessing the prospects of the Company beyond 30 June 2017 and may cast significant doubt on the ability of the Company to continue preparing its financial statements on a going concern basis of accounting. If at some point in the future the Directors conclude it is not appropriate to prepare the financial statements on a going concern basis of accounting then adjustments would be required to reclassify all assets as current, and a provision for further liabilities, including liquidation costs, would be made. In the Directors' opinion the impact of these adjustments on the financial statements is not expected to be significant.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code issued in September 2014, can be found on pages 23 to 26 and forms part of this report.

Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the principal operational activities of the Company, it has no greenhouse gas emissions to report, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Voting Rights of Shareholders

Ordinary Shareholders have the right to receive notice of, to attend and to vote at general meetings of the Company. Each Ordinary Shareholder has one vote on a show of hands and, on a poll, one vote for every Ordinary Share held. The right of Ordinary Shareholders to vote on certain resolutions on the winding-up, reconstruction or reorganisation of the Company is subject to the restrictions set out in the Articles. Votes are required to be lodged with the Company's Registrar 48 hours before a meeting (excluding non-working days). The holders of ZDP Shares do not have the right to receive notice of any general meeting of the Company or to attend or vote at any such meeting except in respect of any resolution: (i) to vary the special rights or privileges attached to the ZDP Shares; (ii) to wind up the Company. Their separate approval as a class will be required for certain proposals that would be likely to affect their position materially.

Notifiable Share Interests

The Board has received notifications of the following interests in 3% or more of the total voting rights of the Company as at 30 June 2016 and at 22 July 2016. The percentage calculation is based on the total voting rights of 109,500,000 Ordinary Shares.

Interested person	**Percentage of Voting Rights Held**
CCLA Investment Management Ltd	10.2%
Baillie Gifford & Co	5.2%
Witan Investment Trust plc	4.8%
David Ross	4.1%

Annual General Meeting

The AGM will be held at 14 Melville Street, Edinburgh EH3 7NS at 2.00 pm on 25 October 2016. The Notice of the Meeting and explanatory notes are set out on pages 58 to 60 of the Annual Report and Financial Statements.

The Directors consider each resolution being proposed at the AGM to be in the best interests of Shareholders as a whole and they unanimously recommend that all Shareholders vote in favour of them, as they intend to do so in respect of their own beneficial shareholdings.

Directors' Report

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, ZDP Shares, receivables and payables that arise directly from its operations, such as sales and purchases of securities awaiting settlement, and accrued income. The main risks that the Company faces arising from its financial instruments are disclosed in Note 20 to the financial statements.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with section 992 of the Companies Act 2006.

- The Company's capital structure and voting rights are summarised on pages 20 to 21.
- Details of the substantial Ordinary Shareholders in the Company are listed on page 21.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are set out on page 31.
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's Shares require a special resolution to be passed by Shareholders.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as Auditors and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information, and to establish that the Company's Auditors are aware of that information.

Future Developments

The future success of the Company is dependent primarily on the performance of its investment portfolio. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective and the stated investment policy and strategy.

G. Tait (GARY TAIT)

By Order of the Board
For and on behalf of Aberforth Partners LLP, Secretaries
14 Melville Street, Edinburgh EH3 7NS
22 July 2016

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. This Corporate Governance Report, which forms part of the Directors' Report, outlines how the Company has applied the principles of the UK Corporate Governance Code (UK Code), issued by the Financial Reporting Council (FRC) in September 2014.

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide), both issued in February 2015. The AIC Code addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code will provide more relevant information to Shareholders, whilst meeting the Board's obligations under the UK Code. The Board is available to discuss corporate governance matters with Shareholders.

Compliance with the UK Code and the AIC Code

Throughout the year ended 30 June 2016 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as explained below where the Company does not believe it appropriate to comply.

The Board, being small in size and composed entirely of independent non-executive Directors, has not appointed a Remuneration or a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole. The Board has also decided not to nominate a Deputy Chairman or a Senior Independent Director, although Michael Greig, as Chairman of the Audit Committee, fulfils this role when necessary, for example, in taking the lead in the annual evaluation of the Chairman.

The UK Code includes provisions relating to the role of the chief executive, executive Directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

UK Stewardship Code

The Board and the Managers support the UK Stewardship Code, issued by the FRC in September 2012, which sets out the principles of effective stewardship by institutional investors. The Company's investment portfolio is managed by Aberforth Partners LLP who invest exclusively in small UK quoted companies and as a significant investor within this asset class, the Managers have a strong commitment to effective stewardship.

The Board has reviewed, and endorses, the Managers' Corporate Governance and Stewardship Code Policy Statement which is available within the literature library section of the Managers' website, at www.aberforth.co.uk.

Socially Responsible Investment (SRI)

The Directors, through the Managers, encourage investee companies to adhere to best practice in the area of Corporate Governance and SRI. The Managers believe that sound social, environmental and ethical policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of social, environmental and ethical concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

Voting Policy

The Board has given discretionary voting powers to the Managers who exercise these voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned.

The Board receives quarterly reports from the Managers on governance issues (including voting) pertaining to investee companies. The Board also reviews and, if appropriate, endorses the Managers' voting guidelines and their stance towards SRI.

Corporate Governance Report

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are considered at its meetings. A formal schedule of matters reserved for decision of the Board has been adopted. The Board of Directors comprises five independent non-executive Directors of whom Jonathan Cartwright is Chairman. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Company has neither executive Directors nor employees. However, the Board has engaged external firms to provide investment management, secretarial, registrar and depositary to the Company. Contractual arrangements are in place between the Company and these firms.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. The Board considers all of the Directors to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

The Board as a whole acts as the Management Engagement Committee under the chairmanship of Jonathan Cartwright and reviews the terms of appointment and remuneration of all the Company's third party service providers. The Board formally evaluates the Managers, including performance and quality of reporting to the Board and Shareholders. A summary of the evaluation process is set out in the Directors' Report on page 19.

Board Performance

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including its role, processes and interaction with the Managers. This review covers the performance of the Board, the Audit Committee, and each Director and is conducted by way of an evaluation questionnaire. The results of the evaluation provide valuable feedback for improving Board effectiveness and highlighting areas for future development. The appraisal of the Chairman is led by Michael Greig as Chairman of the Audit Committee. The Board does not currently consider that the use of an external consultant to facilitate this evaluation would provide any meaningful benefit, though the option to do so is kept under review.

Board Structure & Diversity

The Board regularly reviews its composition having regard to the present and future needs of the Company. This includes consideration of the diversity and balance of expertise and skills of individual Directors. The Board comprises five male and no female Directors. As the Company has no employees and the Board is small in number, the Board does not consider it appropriate to set a policy on gender diversity.

Should the Board conclude that additional Directors are required, the appointment process would be initiated. Potential Directors would be invited to meet the members of the Board prior to a decision on their appointment being made by the Board as a whole. To date, the Board has not found it necessary to appoint external search consultants or to use open advertising.

Induction, Training and Advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. All Directors are entitled to receive appropriate training when required. Directors, in the furtherance of their duties, may seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

All Directors have access to the advice and services of the Company Secretaries, Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors' Insurance and Indemnification

The Company maintains Directors' and Officers' liability insurance cover in respect of legal action against its Directors.

The Company has also entered into a qualifying third party deed of indemnity with each Director. The deeds were in force during the year ended 30 June 2016 and as at the date on which the financial statements were approved. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the

Corporate Governance Report

Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fees.

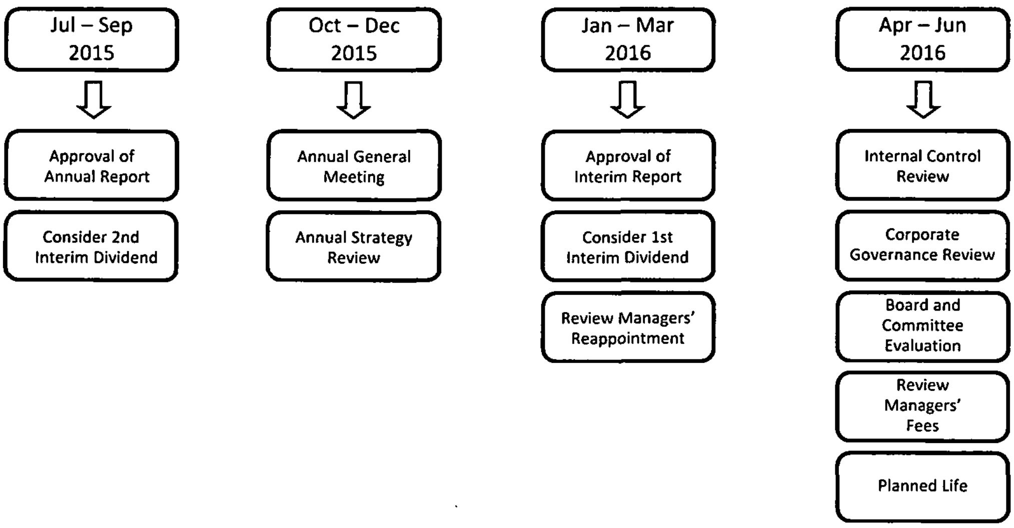
Meetings

The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally as required to enable the Directors to monitor compliance with the investment objective and the Company's investment performance. The Directors also review important areas including:

- the Company's investment activity over the quarter relative to its investment policy;
- the stockmarket environment;
- the revenue account, balance sheet and gearing position;
- performance in relation to comparable investment trusts;
- share price discount or premium (both absolute levels and volatility);
- regulatory matters;
- relevant industry issues;
- composition of the Company's share register; and
- significant changes in Shareholders.

The Board also holds an annual strategy meeting to consider, amongst other matters, the Company's objective and investment strategy.

The following summarises the timetable of specific matters considered by the Board during the year ended 30 June 2016.



The following table sets out the number of scheduled Board and Audit Committee Meetings and other meetings held during the year ended 30 June 2016 and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the AGM in October 2015.

Director	Board	Audit Committee	Other Committee meetings
Number of Meetings:	**4**	**3**	–
Directors' Attendance:			
Jonathan Cartwright	4	–	–
Michael Greig[1]	4	3	–
Dominic Fisher[1]	4	3	–
Graham Menzies	4	–	–
John Richards[1]	4	3	–

[1]Member of the Audit Committee

Corporate Governance Report

Risk Management and Internal Control

The Board has overall responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can only provide reasonable and not absolute assurance against material mis-statement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the financial information of the Company is reliable.

The Board has an on-going process for identifying, evaluating and managing the significant risks faced by the Company and these are recorded in a Risk and Control Matrix. The Directors apply the guidance published by the FRC in "Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting" and confirm they have conducted a review of the effectiveness of the Company's internal control systems.

The review process principally comprises the Audit Committee receiving and examining reports from key service providers. The Board then receives a report from the Audit Committee on its findings. The Board considers each risk as well as reviewing the controls in place to mitigate them. Each risk is rated for its "likelihood" and "impact" and the risk's resultant numeric rating determines its ranking into "Red – High Risk", "Amber – Medium Risk" or "Green – Low Risk". This process was in operation during the year under review and continues in place up to the date of this report. The principal risks faced by the Company, together with the approach taken by the Board to manage them are summarised on page 5. No significant failures or weaknesses in respect of the Company's risk management and internal control systems were identified in the year under review and up to the date of this report.

Conflicts of Interest

Company directors have a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures for authorising any actual or potential conflicts of interest though no such conflicts arose during the year under review.

Communication with Shareholders

The Board places great importance on communication with Shareholders. The Managers endeavour to meet all of the larger Shareholders twice a year and provide them with a detailed report on the progress of the Company. The Board receives reports from the Managers on the outcome of these Shareholder meetings. Directors of the Company are available to meet with any Shareholder on request. In addition to the Annual and Interim reports, daily Net Asset Values of the Company's Share classes, monthly factsheets and other relevant information are published on the Managers' website www.aberforth.co.uk. The Directors may be contacted through the Secretaries whose details are shown on page 57 or through the Chairman's email address which is jonathan.cartwright@aberforth.co.uk.

Shareholders have the opportunity to attend and vote at the AGM during which the Directors and Managers are available to discuss issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

Audit Committee Report

Audit Committee

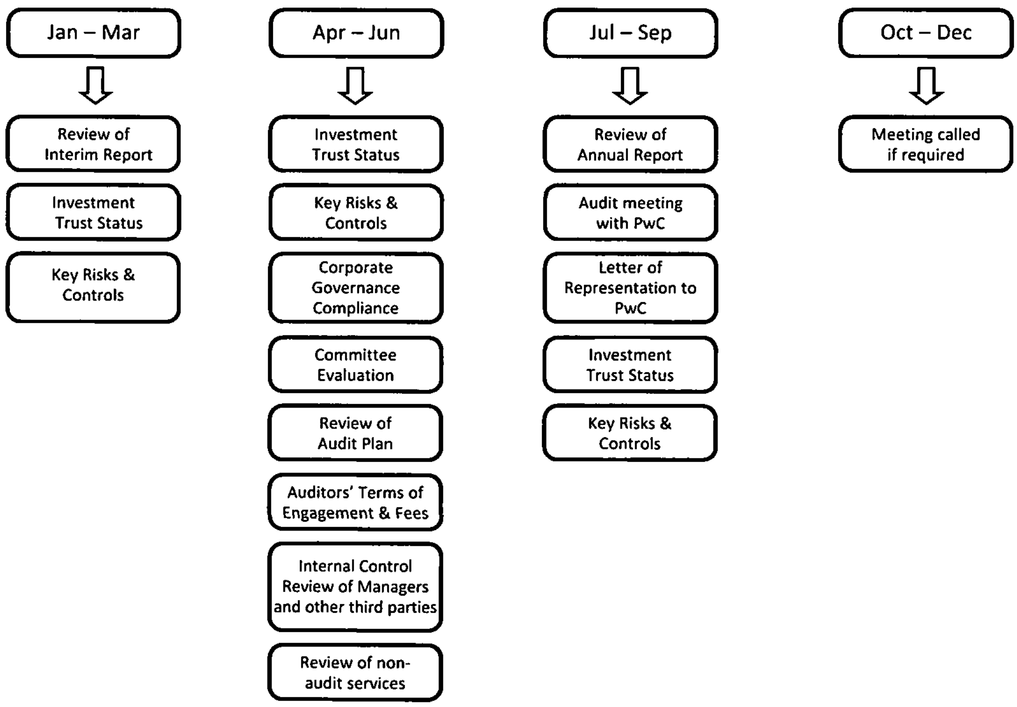
The members of the Audit Committee are Michael Greig (Chairman), Dominic Fisher and John Richards all of whom are independent non-executive Directors. The Committee members have been selected to provide a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The biographies of the Committee members can be found on page 17. Committee meetings are attended by the members and, by invitation, the Directors who are not members, and representatives of the Secretaries. The Committee met three times in the year and details of attendance at meetings is set out on page 25. PricewaterhouseCoopers LLP ("PwC"), the external Auditors, attended the July 2015 and July 2016 meetings. The Chairman of the Committee reports formally to the Board on the Committee's proceedings after each meeting.

The objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so the Committee operates within terms of reference that have been agreed by the Board. These terms of reference are reviewed annually and are available upon request. They will also be available for inspection at the AGM.

Under its terms of reference the Committee has been given the following key responsibilities:

- reviewing the interim and annual financial statements and other formal announcements relating to the Company's financial performance with specific focus on accounting policies adopted, judgemental areas and corporate governance;
- reviewing the effectiveness of the Company's internal control and risk management systems;
- making recommendations to the Board on the appointment and remuneration of the external Auditors and approving their terms of engagement and remuneration;
- assessing the Auditors' independence, objectivity and effectiveness;
- reviewing the terms for any non-audit work to be carried out by the external Auditors;
- considering the need for the Company to have its own internal audit function; and
- monitoring compliance with relevant statutory and investment trust requirements.

Audit Committee Annual Plan



Audit Committee Report

Significant matters considered by the Committee

The Committee considered the following significant matters during the year:

Matter Considered	Action taken by the Committee
Valuation and Ownership of Investments	As part of its review of the Interim Report for the six months ended 31 December 2015 and the Annual Report for the year ended 30 June 2016 the Committee verified that the investments, with the exception of one investee company as at 30 June 2016, were valued in accordance with the stated accounting policy, namely their fair value that is represented by the bid price at the Balance Sheet date. The Committee noted the exception was Shanks Group whose shares were suspended as at 30 June 2016 and a fair value determined by reference to the last traded price and subsequent market movements. The Committee noted Shanks Group's share dealings recommenced on 7 July 2016. The Committee noted National Westminster Bank plc's responsibilities as Depositary included checking the consistency and accuracy of asset records held by Northern Trust, the Company's Custodian, on a monthly basis and reporting its findings to the Company. Additionally the investment portfolio is reconciled on a monthly basis by the Managers. The Committee noted that as part of the audit a further reconciliation was performed by the Auditors as at the year end. The Committee noted that all of the Company's investments are considered to be liquid and with one exception are categorised as Level 1 within the IFRS 13 fair value hierarchy. Shanks Group (as detailed above) is categorised as Level 2 within the IFRS 13 fair value hierarchy.
Recognition of Income	As part of its review of the Interim Report for the six months ended 31 December 2015 and the Annual Report for the year ended 30 June 2016 the Committee reviewed the underlying basis for special dividends declared by investee companies. Following the review the Committee concluded the recording of certain dividend entitlements as capital returns was appropriate and was in accordance with the AIC SORP. The Committee noted that as part of their audit the Auditors did not find any special dividends that were not treated in accordance with the AIC SORP.
Investment Trust Status	The Committee noted the Company has been approved by HMRC as an Investment Trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 for accounting periods on or after 1 July 2012. The Committee concluded the Company satisfied the eligibility conditions to continue its approval as an Investment Trust for the year ended 30 June 2016.
Going Concern	The Committee received and discussed a report from the Secretaries on going concern, reflecting the latest guidance published by the FRC. Topics included in the discussion were: the liquidity of the portfolio, trading activity in the year ended 30 June 2016, portfolio diversification, operating expenses and the utilisation of the £2m overdraft facility. The Committee also considered the implications of the proximity to the planned winding-up date of 30 June 2017 and that Shareholders will have a vote on proposals relating to the Company's planned life, on or before 30 June 2017. Notwithstanding the Company's planned life the Committee considered that the Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and that the Company is well placed to continue to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future. The Committee, after due consideration, concluded it was appropriate to prepare the financial statements on a going concern basis and made this recommendation to the Board. In arriving at its conclusion the Committee considered and recognised that the nature of the proposals relating to the Company's planned life, which the Shareholders will be required to vote on, and the outcome of the vote represent material uncertainties in the context of assessing the prospects of the Company beyond 30 June 2017 and may cast significant doubt on the ability of the Company to continue preparing its financial statements on a going concern basis of accounting.
Viability Statement	The Committee assessed the viability of the Company and in April 2016 considered a draft Viability Statement. For the reasons set out on page 5 the Committee considered it was appropriate to assess the Company's viability over a five year period. In July 2016, the Committee conducted a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' Funds, investment income and also the potential loss of investment trust status. The results of the tests led the Committee to recommend to the Board the Viability Statement that is set out on page 5.

Audit Committee Report

Matter Considered	Action taken by the Committee
Cyber Security	The Committee considered the increasing risk to the Company arising from cyber threats. In conjunction with the Secretaries they assessed the likely risk and reviewed the controls of the Company and third party service providers.
Key Risks and Controls	The Committee reviewed the Company's Key Risks and Controls Matrix and identified the controls established by the Board, the Managers and other service providers to mitigate the risks. During the year the Committee further enhanced the design and content of the Key Risks and Controls Matrix to ensure it continued to reflect the changing risk environment. The Committee considered the Managers' Report on Internal Controls, including an assurance report issued by PwC. In addition, the Committee received internal control reports from each of the Company's Custodian and Registrar and assurance reports thereon. The Committee reviewed all three reports and was satisfied that there were no significant issues. The Committee also considered a report from the Secretaries on the service provided by the Depositary. The Committee also considered whether there was a need for an internal audit function. The Committee concluded that, as the Company has no employees and receives internal control reports, including independent assurance reports, from its key third party suppliers, an internal audit function is not necessary.
Audit Planning & Audit Fees	The Committee received a detailed audit plan from PwC in April 2016, before work started on the 2016 audit. This plan set out the scope of the audit work, principal audit risks, the proposed timetable, confirmation of PwC's independence and the quality of their work, and a formal fee proposal. The key audit risks identified by PwC and discussed by the Committee are set out within the Auditors' Report on pages 34-37. The Committee held direct discussions with the Auditors, providing an opportunity for dialogue on any potentially sensitive matters or concerns without the Secretaries being present. Fees payable to PwC relating to the 2016 audit amounted to £27,840 (incl.VAT) (2015: £24,720).
Evaluation of the Auditors	PwC have provided audit services to the Company from its incorporation in 2010 to date. Following completion of the audit the Committee reviewed the audit process with the PwC partner and senior manager noting that there were no material variations from the pre-agreed audit plan. The Committee acknowledged that the PwC audit team comprised staff with appropriate levels of experience and a good knowledge of the investment trust sector and the current audit partner had served for four years. The Committee also noted the positive feedback provided by the Secretaries on PwC's execution of the audit process. Additionally PwC provided confirmation that they had complied with the relevant UK professional and regulatory requirements on independence. The Committee agreed that there was no evidence to suggest that PwC's independence had been impaired. Taking into account the findings of its evaluation, the Committee considered PwC to be independent of the Company and that they had carried out the audit and their duties as auditor in a professional and effective manner. The Committee recommended to the Board that the reappointment of PwC as Auditors be put to Shareholders for approval at the forthcoming AGM.

Non-Audit Services

Fees of £4,920 (incl. VAT) were paid during the year to PwC relating to routine tax compliance services, including the completion and submission of the corporation tax return and the preparation of iXBRL formatted accounts. Prior to any engagement for non-audit services the Committee considers whether PwC is a suitable supplier of these services and whether there is a threat to objectivity and independence in the conduct of their audit. The Committee is satisfied that the nature and extent of the tax work undertaken did not impair PwC's objectivity and independence in the conduct of the audit.

Committee Evaluation

A formal annual review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The conclusion was that the Committee continues to operate effectively with no significant concerns expressed.

Michael Greig

Chairman of the Audit Committee

22 July 2016

Directors' Remuneration Policy

This section provides details of the remuneration policy for the Directors of the Company. All Directors are appointed under the terms of letters of appointment and none has a service contract. The Company has no employees.

The Board has prepared this policy in accordance with the requirements of the Companies Act 2006. This policy was previously approved by Ordinary Shareholders at the Annual General Meeting held on 16 October 2014 and the policy provisions continue to apply until they are next put to Ordinary Shareholders for approval, which must be at intervals not exceeding three years. This Policy, together with the Directors' letters of appointment may be inspected at the Company's registered office.

The Board is composed wholly of non-executive Directors who together consider and determine all matters relating to the Directors' remuneration at the beginning of each financial year. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Policy on Directors' Remuneration

The Company's policy is that the remuneration of the Directors should be commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of appropriate quality and experience. No Shareholder has expressed views to the Company in respect of Directors' remuneration. Remuneration Policy is not subject to employee consultation as the Company has no employees.

The Board, at its discretion, shall determine Directors' remuneration subject to the aggregate annual fees not exceeding £150,000 in accordance with the Company's Articles of Association. Such remuneration is solely composed of Directors' fees and Directors are not eligible for any other remuneration.

The fees paid to Directors in respect of the year ended 30 June 2016 and the fees payable in respect of the year ending 30 June 2017 are set out in the table below. The fees payable to Directors in subsequent financial periods will be determined following an annual review.

	Fees for year ending 30 June 2017 £	**Fees for year ended 30 June 2016 £**
Chairman of the Company	29,120	28,690
Director and Chairman of the Audit Committee	26,790	26,390
Director and Member of the Audit Committee	23,290	22,950
Director	23,290	22,950

It is intended that this policy will remain in place for the following financial year and subsequent years.

Loss of Office

A Director may be removed without notice and no compensation will be due on loss of office.

Expenses

All Directors are entitled to the reimbursement of expenses paid by them in order to perform their duties as a Director of the Company.

Review of the Remuneration Policy

The Board has agreed to review the above policy at least annually to ensure that it remains appropriate.

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 30 June 2016 which has been prepared in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The remuneration policy which is subject to a triennial vote by shareholders is set out on page 30. The law requires the Company's Auditors to audit certain elements of this report and these elements are described below as "Audited". The Auditors' opinion is included in the Independent Auditors' Report on pages 34 to 37.

Statement by the Chairman

The Board reviewed the level of fees payable to Directors and agreed an increase of 1.5% in the year ending 30 June 2017. The basis for determining the level of fees is set out in the Directors' Remuneration Policy on page 30. In reaching the conclusion on the level of fees payable the Board also took into account the rate of inflation and reviewed the level of remuneration in comparison with other investment trusts of a similar size and/or mandate.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to re-election by Shareholders. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter no less frequently than at every third subsequent Annual General Meeting. The terms also provide that a Director may be removed without notice and that no compensation will be due on loss of office. The terms and conditions of appointment of Directors are available for inspection at the office of Aberforth Partners LLP during normal business hours and at the registered office of the Company on request.

The following Directors held office during the year:

Director	**Date of Appointment**	**Date of Re-appointment**	**Unexpired Term**
Jonathan Cartwright, Chairman	30 March 2010	30 March 2016	2 years 8 months
Michael Greig	30 March 2010	30 March 2016	2 years 8 months[1]
Dominic Fisher	30 March 2010	30 March 2016	2 years 8 months
Graham Menzies	15 October 2010	15 October 2013	3 months
John Richards	12 August 2011	25 July 2014	1 year 0 months[1]

[1] The unexpired term for Michael Greig and John Richards are subject to their re-election at the Annual General Meeting on 25 October 2016.

Directors' Fees (Audited)

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, pension contributions or other benefits. The emoluments of the Directors who served during the year were as follows:

	Fees (Total Emoluments)	
Director	**2016 £**	2015 £
Jonathan Cartwright, *Chairman*	**28,690**	28,690
Michael Greig, *Chairman of the Audit Committee*	**26,390**	26,390
Dominic Fisher	**22,950**	22,950
Graham Menzies	**22,950**	22,950
John Richards	**22,950**	22,950
	123,930	123,930

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends:

	2016 £'000	2015 £'000	Absolute change £'000
Total Directors' remuneration	**124**	124	–
Total dividends in respect of that year	**10,950**	10,730	+220

Directors' Remuneration Report

Performance Graph

As required by the Companies Act 2006, the adjacent graph compares the performance of the Ordinary Share price with the performance of an index on a total return basis (assuming all dividends reinvested). The NSCI (XIC) has been selected since it represents the universe of companies in which the Company may invest. However, the more important influence on the share price performance of the Ordinary Shares over the Company's lifetime is likely to be its success in meeting the investment objective, as described on page 4. Specifically, the portfolio must generate a high level of income and sufficient capital growth to pay the final entitlement of the ZDP Shareholders and the costs incurred by the Company.

Statement of Directors' Shareholdings and Share Interests (Audited)

The Directors who held office at any time during the year ended 30 June 2016 and their interests (in respect of which transactions are notifiable to the Company) in the Shares of the Company as at 30 June 2016 were as follows:

		Ordinary Shares		**ZDP Shares**	
Directors	Nature of Interest	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Jonathan Cartwright	Beneficial	12,240	12,240	8,160	8,160
Michael Greig	Beneficial	73,967	66,516	8,160	8,160
Dominic Fisher	Beneficial	70,438	67,739	–	–
Graham Menzies	Beneficial	97,800	97,800	–	–
	Non-beneficial	45,413	33,065	–	–
John Richards	Beneficial	27,935	27,935	–	–

There has been no change in the beneficial or non-beneficial holdings of the Directors between 30 June 2016 and 22 July 2016. The Company has no share options or share schemes. Directors are not required to own Shares in the Company.

Statement of Voting at the last Annual General Meeting

At the Annual General Meeting held on 27 October 2015, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report. Proxy votes cast in favour of the resolution amounted to 44,023,043 (100.0%) and proxy votes cast against were 557 (0.0%). A further 1,000 votes were withheld.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report summarises, as appropriate, for the year ended 30 June 2016:

(a) the major decisions on Directors' remuneration;

(b) any substantial changes relating to Directors' remuneration made during the year; and

(c) the context in which those changes occurred and decisions have been taken.

Jonathan Cartwright
Chairman
22 July 2016

Directors' Responsibilities Statement

Statement of Directors' Responsibilities in Relation to the Financial Statements

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Report of the Directors, the Corporate Governance Statement, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, that disclose with reasonable accuracy at any time the financial position of the Company and that enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Company are published on www.aberforth.co.uk. This website is maintained by Aberforth Partners LLP and its integrity is, so far as it relates to the Company, the responsibility of Aberforth Partners LLP. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Responsibility Statement under the Disclosure and Transparency Rules

The Directors who were in office at the date of approving these financial statements, and who are listed on page 17, confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

J.H. Cartwright

For and on behalf of the Board
Jonathan Cartwright, *Chairman*

22 July 2016

Independent Auditors' Report

To the Members of Aberforth Geared Income Trust plc

Report on the financial statements

Our opinion

In our opinion, Aberforth Geared Income Trust plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2a to the financial statements concerning the Company's ability to continue as a going concern. The Company has a planned winding-up date of 30 June 2017 and as a result the Directors have considered whether the going concern basis of accounting is still appropriate. The nature of any proposals that may be presented by the Directors relating to the Company's planned life which the Shareholders will be required to vote on and the outcome of the vote on any such proposals represents the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 30 June 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

- Materiality:

Overall materiality: £2.0 million which represents 1% of net assets.

Audit Scope:

- The Company is a standalone Investment Trust Company and engages Aberforth Partners LLP (the "Managers") to manage its assets and provide administrative and company secretarial services.
- We conducted our audit of the financial statements at the Managers' office.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the Managers, the accounting processes and controls, and the industry in which the Company operates.

Areas of Focus:

- Income
- Valuation and existence of investments
- Going concern.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report

Area of focus	How our audit addressed the area of focus
Income Refer to page 28 (Audit Committee Report), pages 42 to 44 (Accounting Policies) and pages 45 to 54 (Notes to the Financial Statements). We focused on the accuracy and completeness of income from investments amounting to £14.0 million for the year and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). We also focused on the calculation of realised and unrealised gains and losses on investments amounting to a loss of £38 million for the year. This is because incomplete or inaccurate income (for both the revenue and capital return columns of the Statement of Comprehensive Income) could have a material impact on the Company's net asset value.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We understood and assessed the design and implementation of key controls surrounding income recognition. In addition, we tested dividend income by agreeing the dividend rates from a sample of investments to independent third party sources. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared for a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP. We then tested the validity of a sample of revenue and capital special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP. We have also tested the gains or losses on investments held at fair value comprising realised and unrealised gains or losses. For realised gains or losses, we tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments. No misstatements were identified by our testing which required reporting to those charged with governance.
Valuation and existence of investments Refer to page 28 (Audit Committee Report), pages 42 to 44 (Accounting Policies) and pages 45 to 54 (Notes to the Financial Statements). The investment portfolio at the year-end principally comprised of listed equity investments of £308 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from The Northern Trust Company. No differences were identified.
Going Concern Refer to page 28 (Audit Committee Report), pages 42 to 44 (Accounting Policies) and pages 45 to 54 (Notes to the Financial Statements). We focused on the Directors' assessment of the Company as a going concern because the Company has a planned winding-up date of 30 June 2017 which is within 12 months of the Annual Report and Financial Statements signing date.	We obtained the Directors' detailed assessment of going concern and reviewed the assumptions made against independent data. For example, over the liquidity of investments within the portfolio. In addition we considered the adequacy of disclosures made by the Directors over the uncertainty surrounding going concern as a basis of preparation for the Financial Statements. In light of the uncertainties noted, we have included an emphasis of matter as above and reported this to those charged with governance.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the Company, the involvement of the Managers, the accounting processes and controls, and the industry in which the Company operates.

As part of our risk assessment, we assessed the control environment in place at the Managers to the extent relevant to our audit. This assessment involved obtaining and reading the relevant control reports, issued by the independent auditor of the Managers in accordance with generally accepted assurance standards for such work, to gain an understanding of the Managers' control environment and to consider the operating and accounting structure at the Managers. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£2.0 million (2015: £2.5 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £102,000 (2015: £125,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on pages 20 to 21, in relation to going concern.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements and their identification of any material uncertainties.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. The appropriateness of the adoption of the going concern basis by the Company is dependent on Shareholders agreeing to an extension of the planned life of the Company. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate, although the uncertainties around an extension to the planned life of the Company indicates the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern, as explained in note 2a to the financial statements.

We have nothing material to add or to draw attention to other than the material uncertainties we have described in the emphasis of matter paragraph above. As not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion: the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; the information given in the Corporate Governance Statement set out on pages 23-26 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) *we are required to report to you if, in our opinion:*	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – *otherwise misleading.*	We have no exceptions to report.
• the statement given by the Directors on page 33, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 27 to 29, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 5 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 5 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	Refer to our Emphasis of Matter - Going Concern above. We have nothing else material to add or to draw attention to.

Independent Auditors' Report

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review, other than the material uncertainties referred to in our emphasis of matter above.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through understanding the control environment at the Managers and substantive procedures.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Allan McGrath *(Senior Statutory Auditor)*
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

22 July 2016

Statement of Comprehensive Income

Year ended 30 June 2016

		Year ended 30 June 2016			Year ended 30 June 2015		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income							
Investment income	3	**13,886**	**143**	**14,029**	13,295	575	13,870
Other income	3	**3**	**–**	**3**	3	–	3
(Losses)/gains on investments held at fair value through profit or loss	12	**–**	**(38,021)**	**(38,021)**	–	37,384	37,384
Total income and gains		**13,889**	**(37,878)**	**(23,989)**	13,298	37,959	51,257
Expenses							
Investment management fee	5	**(871)**	**(2,033)**	**(2,904)**	(863)	(2,012)	(2,875)
Transaction costs	7	**–**	**(800)**	**(800)**	–	(732)	(732)
Other operating expenses	6	**(342)**	**–**	**(342)**	(333)	–	(333)
Total expenses		**(1,213)**	**(2,833)**	**(4,046)**	(1,196)	(2,744)	(3,940)
Profit/(loss) before finance costs and taxation		**12,676**	**(40,711)**	**(28,035)**	12,102	35,215	47,317
Finance costs							
Appropriation to ZDP Shares	8	**–**	**(6,920)**	**(6,920)**	–	(6,465)	(6,465)
Interest expense	8	**(5)**	**(11)**	**(16)**	(7)	(16)	(23)
Total finance costs		**(5)**	**(6,931)**	**(6,936)**	(7)	(6,481)	(6,488)
Profit/(loss) before taxation		**12,671**	**(47,642)**	**(34,971)**	12,095	28,734	40,829
Taxation	9	**(8)**	**–**	**(8)**	–	–	–
Profit/(loss) after taxation for the year		**12,663**	**(47,642)**	**(34,979)**	12,095	28,734	40,829
Earnings per Ordinary Share	11	**11.56p**	**(43.51)p**	**(31.95)p**	11.05p	26.24p	37.29p

The Company does not have any other comprehensive income or expenses and hence the profit after taxation for the year as disclosed above is the same as the Company's total comprehensive income.

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union. The supplementary revenue return and capital returns columns are both prepared in accordance with the Statement of Recommended Practice published by the Association of Investment Companies in November 2014.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company. There are no controlling interests.

The Company does not have any dilutive securities and therefore the Earnings per Share and the Diluted Earnings per Share are the same.

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2016

	Notes	**2016 £'000**	2015 £'000
Non-current assets			
Investments held at fair value through profit or loss	12	**308,075**	349,825
Current assets			
Receivables	13	**2,646**	1,553
Cash and cash equivalents	19	**3,703**	2,212
Total current assets		**6,349**	3,765
Total assets		**314,424**	353,590
Current liabilities			
Zero Dividend Preference Shares	15	**(109,235)**	–
Payables	14	**(607)**	(764)
Non-current liabilities			
Zero Dividend Preference Shares	15	**–**	(102,315)
Total liabilities		**(109,842)**	(103,079)
Total Net Assets		**204,582**	250,511
Equity attributable to Equity Shareholders			
Share capital	16&18	**1,095**	1,095
Share premium	18	**67,345**	67,345
Special reserve	18	**43,480**	43,480
Capital reserve	18	**77,650**	125,292
Revenue reserve	18	**15,012**	13,299
Total Equity Shareholders' Funds		**204,582**	250,511
Net asset value per Ordinary Share	17	**186.83p**	228.78p
Net asset value per ZDP Share	17	**149.64p**	140.16p

The financial statements on pages 38 to 54 were authorised for issue by the Board of Directors on 22 July 2016 and were signed on its behalf by:

J.H. Cartwright

Jonathan Cartwright, *Chairman*

COMPANY NAME : ABERFORTH GEARED INCOME TRUST PLC

COMPANY NUMBER : 07189761

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

Year ended 30 June 2016

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 July 2015		1,095	67,345	43,480	125,292	13,299	250,511
Total Comprehensive Income:							
(Loss)/profit for the year		–	–	–	(47,642)	12,663	(34,979)
Transactions with owners, recorded directly to equity:							
Dividends paid	10	–	–	–	–	(10,950)	(10,950)
At 30 June 2016		**1,095**	**67,345**	**43,480**	**77,650**	**15,012**	**204,582**

Year ended 30 June 2015

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 July 2014		1,095	67,345	43,480	96,558	10,566	219,044
Total Comprehensive Income:							
Profit for the year		–	–	–	28,734	12,095	40,829
Transactions with owners, recorded *directly to equity:*							
Dividends paid	10	–	–	–	–	(9,362)	(9,362)
At 30 June 2015		1,095	67,345	43,480	125,292	13,299	250,511

The accompanying notes form part of these financial statements.

Cash Flow Statement

Year ended 30 June 2016

	Notes	**Year ended 30 June 2016 £'000**	Year ended 30 June 2015 £'000
Cash flows from operating activities			
(Loss)/profit before finance costs and taxation		**(28,035)**	47,317
Adjustments for:			
Losses/(gains) on investments held at fair value through profit or loss	12	**38,021**	(37,384)
Transaction costs for acquiring or disposing of investments	7	**800**	732
(Increase)/decrease in receivables	13	**(1,065)**	15
Increase/(decrease) in payables	14	**61**	(12)
Purchases of investments including transactions costs		**(88,218)**	(87,453)
Sales of investments after transaction costs		**90,901**	88,171
Withholding tax paid	9	**(8)**	–
Net cash inflow from operating activities		**12,457**	11,386
Cash flows from financing activities			
Interest paid	8	**(16)**	(23)
Dividends paid on Ordinary Shares	10	**(10,950)**	(9,362)
Net cash outflow from financing activities		**(10,966)**	(9,385)
Net increase in cash and cash equivalents		**1,491**	2,001
Cash and cash equivalents at the start of the year		**2,212**	211
Cash and cash equivalents at the end of the year		**3,703**	2,212

Cash and cash equivalents comprise cash at bank.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Year ended 30 June 2016

1 General Information

The Company was incorporated on 15 March 2010 and started trading on 30 April 2010 and has a planned fixed life expiring on 30 June 2017. It is incorporated in England and Wales under the Companies Act 2006. These are financial statements drawn up for the year ended 30 June 2016.

2 Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations of the IFRS Interpretations Committee (IFRS IC) that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared in accordance with the Association of Investment Companies (AIC) Statement of Recommended Practice (SORP) for Investment Trusts issued in November 2014.

The financial statements have been prepared on a going concern basis of accounting under the historical cost convention, modified to include the revaluation of investments at fair value through profit or loss.

The Directors have undertaken an assessment of whether it is appropriate for the Company to continue to adopt the going concern basis of accounting and the Directors considered all available information when undertaking the assessment. In particular the Directors considered the implications of the proximity to the planned winding up date of 30 June 2017 and that Shareholders will have a vote on proposals relating to the Company's planned life, on or before 30 June 2017. The Directors also considered the Company's investment objective, policy and strategy, together with the factors likely to affect its development, performance and position, which are set out in the Strategic Report. The Annual Report also includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements.

Notwithstanding the Company's planned life the Directors consider that the Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and that the Company is well placed to continue to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future. The Directors also considered the investment outlook, the objectives of both classes of Shareholders, potential sources of funding to refinance the repayment of the entitlement due to the ZDP Shareholders and the other future cash flows of the Company. Taking all available information into consideration the Directors consider that it is appropriate to prepare the financial statements on a going concern basis of accounting.

The nature of any proposals that may be presented by the Directors relating to the Company's planned life which the Shareholders will be required to vote on and the outcome of the vote on any such proposals represent material uncertainties in the context of assessing the prospects of the Company beyond 30 June 2017 and may cast significant doubt on the ability of the Company to continue preparing its financial statements on a going concern basis of accounting. If at some point in the future the Directors conclude it is not appropriate to prepare the financial statements on a going concern basis of accounting then adjustments would be required to reclassify all assets as current, and a provision for further liabilities, including liquidation costs, would be made. In the Directors' opinion the impact of these adjustments on the financial statements is not expected to be significant.

The Company's presentation currency is pounds sterling. Pounds sterling is also the functional currency because it is the currency that is most relevant to the majority of the Company's Shareholders and creditors and the currency in which the majority of the Company's operating expenses are paid.

Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted early by the Company:

- Amendments to IAS 1, 'Presentation of Financial Statements', Disclosure Initiative (effective for financial period beginning on or after 1 January 2016). Amendments to revise the way other comprehensive income is presented.
- IFRS 9, 'Financial Instruments' (effective for financial periods beginning on or after 1 January 2018) replaces IAS39 and simplifies accounting for financial assets, replacing the current multiple measurement categories with a single principle-based approach to classification. The standard requires that all financial assets are to be measured at either amortised cost or fair value. The Company will apply IFRS 9 from 1 July 2018, subject to endorsement by the EU.

(b) Presentation of the Statement of Comprehensive Income

To reflect better the activities of an investment trust Company and in accordance with the guidance issued by the AIC, supplementary information that analyses the Statement of Comprehensive Income between items of

Notes to the Financial Statements

2 Accounting Policies *(continued)*

a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

In accordance with the Company's Articles of Association, net capital returns may not be distributed by way of a dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

(c) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Listed investments are valued at their fair value, which is represented by the market bid price at the Balance Sheet date, without deduction of estimated future selling costs. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value.

As investments have been categorised as "financial assets at fair value through profit or loss", gains and losses arising from changes in fair value are included in the Statement of Comprehensive Income as "Gains/(losses) on investments held at fair value through profit and loss". Acquisitions and disposals of investments are accounted for on a trade date basis.

All investments, classified as fair value through profit or loss, are further categorised into the following fair value hierarchy:

Level 1 – Unadjusted prices quoted in active markets for identical assets and liabilities;

Level 2 – Having inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – Having inputs for the asset or liability that are not based on observable data.

(d) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost. Receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(e) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash.

(f) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Accordingly Ordinary Shares are classified as equity and ZDP Shares are classified as financial liabilities.

(g) Payables

Payables are initially recognised at fair value and subsequently measured at amortised cost. Payables are not interest-bearing and are stated at their nominal value.

(h) Reserves

(i) **Share Premium** – Represents the premium paid on the issue of Ordinary Shares on 10 August 2011.

(ii) **Special reserve** – The special reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation would be accounted for in this reserve. This reserve was created in July 2010 subsequent to the cancellation of the value of the share premium reserve at the time.

(iii) **Capital reserve** – Accounted for within the capital reserve are gains and losses on the sale of investments, gains on the return of capital by investee companies paying special dividends, expenses charged in accordance with the policies set out below, and increases and decreases in the valuation of investments held at the reporting date. As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10: "Distributable Profits", changes in fair value of investments that are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash.

(iv) **Revenue reserve** – The net profit/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve. Dividends distributed to Shareholders are accounted for in this reserve.

(i) Income

Dividends receivable from listed equity shares are taken to the revenue return column of the Statement of Comprehensive Income on the ex dividend date except where, in the opinion of the Board, the dividend is capital

Notes to the Financial Statements

2 Accounting Policies *(continued)*

in nature, in which case it is included in capital. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Other income is accounted for on an accruals basis.

(j) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except for transaction costs and expenses incurred in connection with the maintenance or enhancement of the Company's investment portfolio, which are charged to the capital reserve. Taking into account the Board's expectation of the long-term split of returns in the form of capital and income, investment management fees and finance costs in the form of bank interest are charged 70% to capital and 30% to revenue.

(k) Finance costs

The ZDP Shares are designed to provide a pre-determined capital growth from their original issue price of 100p on 30 April 2010 to a final capital entitlement of 159.7p on 30 June 2017 (£116.6m), on which date the Company is planned to be wound up. The initial capital of 100p at 30 April 2010 will increase at a compound interest rate of 6.75% per annum. No dividends are payable on the ZDP Shares. The provision for the capital growth entitlement of the ZDP Shares is included as a finance cost and charged 100% to capital within the Statement of Comprehensive Income.

Finance costs incurred with the overdraft facility are accounted for on an accruals basis.

(l) Taxation

Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other financial periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the Balance Sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts that have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to Equity, in which case the deferred tax is also dealt with in Equity.

(m) Dividends

Dividend distribution to equity Shareholders is recognised as a liability in the financial statements in the period when the Company's obligation to make payment is established.

(n) Share issue costs

Costs incurred directly in relation to the offers for subscription and placings of Ordinary Shares together with additional share listing costs have been deducted from equity.

(o) Critical Accounting Estimates and Judgements

The facts and circumstances of all dividend entitlements are considered to determine whether such distributions are accounted for as revenue or capital. Determining whether a dividend is a *return on capital* (accounted for as revenue) or a *return of capital* (accounted for as capital) requires judgement to be applied.

In the event a security held within the portfolio is suspended then judgement is applied in the valuation of that security.

Notes to the Financial Statements

3 Income

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Investment income		
UK dividends	**13,338**	12,612
Overseas dividends	**387**	528
Property income distributions (PID's)	**161**	155
	13,886	13,295
Other income		
Deposit interest	**3**	3
Total income	**13,889**	13,298
Total income comprises:		
Dividends	**13,886**	13,295
Deposit interest	**3**	3
Total income	**13,889**	13,298

During the year ended 30 June 2016 the Company received eight (2015: nine) special dividends totalling £979,000 (2015: £2,560,000). Of the eight special dividends a total of £836,000 (2015: £1,985,000) was recorded as revenue and £143,000 (2015: £575,000) was recorded as capital.

4 Operating Segments

The Board has considered the requirements of IFRS 8 "Operating Segments" and is of the view that the Company is engaged in a single segment of business, investing in securities listed in the UK, and that therefore the Company has only a single operating segment. In respect of the investment portfolio the chief operating decision makers are the Managers, within guidelines set by and oversight from the Board. An important measure of performance used by the Managers and the Board to assess the Company's investment performance is the total assets total return.

5 Investment Management Fee

Details of the investment management fee arrangements can be found on page 19.

Notes to the Financial Statements

6 Other operating expenses

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Directors' fees	**124**	124
Depositary fee	**35**	32
Auditors' fees – Audit services (recurring)	**28**	25
Auditors' fees – Taxation services	**5**	5
Registrars' fees	**29**	24
AIC fees	**21**	21
Custodian fees	**17**	16
Printing	**9**	13
Financial Conduct Authority	**8**	11
LSE and UKLA listing fees	**7**	10
Directors' and Officers' liability insurance	**6**	7
Legal fees	**4**	10
Other general administrative expenses	**49**	35
	342	333

The other operating expenses set out in the table above include VAT, where applicable, and were charged to revenue. Auditors' fees for taxation services relate to tax compliance services. The Company had no employees in either year above.

Full details of Directors' fees is provided in the Directors' Remuneration Report on page 31.

7 Transaction costs

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss are analysed below.

Analysis of purchases

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Purchase consideration before expenses	**87,377**	87,578
Broker commissions	**193**	167
Taxes	**430**	382
Total purchase costs	**88,000**	88,127
Analysis of sales		
Sales consideration before expenses	**91,106**	88,096
Broker commissions	**(177)**	(183)
Total sales proceeds	**90,929**	87,913
Total transaction costs	**800**	732

Notes to the Financial Statements

8 Finance Costs

	Notes	Year ended 30 June 2016 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2015 Revenue £'000	Capital £'000	Total £'000
Appropriation to ZDP Shares	15	–	**6,920**	**6,920**	–	6,465	6,465
Overdraft facility – fee and interest		**5**	**11**	**16**	7	16	23
		5	**6,931**	**6,936**	7	6,481	6,488

The Company has a £2 million overdraft facility with The Royal Bank of Scotland plc, which is subject to an annual credit evaluation. The interest rate applying to overdrawn balances is 2.25% over the UK Base Rate. In addition a quarterly arrangement fee was incurred in respect of the existing facility. During the year ended 30 June 2016 the highest utilisation of the overdraft facility was £1.0 million (2015: £1.7 million).

9 Taxation

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Analysis of tax charged on ordinary activities		
Current tax charge for the year	**–**	–
Irrecoverable overseas tax suffered	**8**	–
Total tax charge for the year	**8**	–

Factors affecting current tax charge for the year
The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the year. The differences are explained below:

(Loss)/profit before taxation	**(34,971)**	40,829
Notional corporation tax at 20% (2015: 20.75%)	**(6,994)**	8,472
Non-taxable UK dividends	**(2,696)**	(2,736)
Non-taxable capital returns	**7,604**	(7,757)
Non-taxable overseas dividend income	**(77)**	(110)
Expenses not deductible for tax purposes	**160**	152
Appropriation to ZDP Shares	**1,384**	1,341
Movement in unutilised excess expenses	**627**	638
Total current tax charge for the year	**8**	–

There are unutilised expenses of £13,816,000 (2015: £10,678,000), resulting in an unprovided deferred taxation asset of £2,763,000 (2015: £2,144,000) as at 30 June 2016 (at 20%). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

Owing to the Company's status as an Investment Trust Company and the intention to continue as such in the foreseeable future, the Company has not provided for tax on any capital gain arising on the revaluation or disposal of investments held.

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's effective tax rate for the year to 30 June 2015 was 20.75%.

Notes to the Financial Statements

10 Dividends paid
Amounts recognised as dividends to Shareholders in the year:

	Year ended 30 June 2016			Year ended 30 June 2015		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
In respect of the year ended 30 June 2014:						
Second interim dividend of 4.85p	–	–	–	5,311	–	5,311
Special dividend of 1.2p	–	–	–	1,314	–	1,314
In respect of the year ended 30 June 2015:						
First interim dividend of 2.5p	–	–	–	2,737	–	2,737
Second interim dividend of 5.5p	**6,023**	**–**	**6,023**	–	–	–
Special dividend of 1.8p	**1,971**	**–**	**1,971**	–	–	–
In respect of the year ended 30 June 2016:						
First interim dividend of 2.7p	**2,956**	**–**	**2,956**	–	–	–
	10,950	**–**	**10,950**	9,362	–	9,362

The second interim dividend for the year ended 30 June 2016 of 6.3p per Ordinary Share and the special dividend for the year ended 30 June 2016 of 1.0p per Ordinary Share, both payable on 25 August 2016, have not been included as a liability in these financial statements.

Set out below are the total dividends paid and payable in respect of the year ended 30 June 2016, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered.

		Year ended 30 June 2016 £'000
Revenue available for distribution by way of dividends for the year		**12,663**
Dividends in respect of the year ended 30 June 2016:		
– First interim dividend of 2.7p (paid 26 February 2016)	**2,956**	
– Second interim dividend of 6.3p (payable 25 August 2016)	**6,899**	
– Special dividend of 1.0p (payable 25 August 2016)	**1,095**	**10,950**
Undistributed revenue for the purposes of section 1158 of the *Corporation Tax Act 2010*		**1,713**

11 Earnings per Share

	Year ended 30 June 2016	Year ended 30 June 2015
Revenue profit for the year	**£12,663,000**	£12,095,000
Weighted average Ordinary Shares in issue during the year	**109,500,000**	109,500,000
Revenue Earnings per Ordinary Share	**11.56p**	11.05p
Capital (loss)/profit for the year	**(£47,642,000)**	£28,734,000
Weighted average Ordinary Shares in issue during the year	**109,500,000**	109,500,000
Capital Earnings per Ordinary Share	**(43.51p)**	26.24p
Appropriation to ZDP Shares for the year	**£6,920,000**	£6,465,000
Weighted average ZDP Shares in issue during the year	**73,000,000**	73,000,000
Earnings per ZDP Share	**9.48p**	8.86p

Notes to the Financial Statements

12 Investments held at fair value through profit or loss

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Investments at fair value through profit or loss		
Opening fair valuation	**349,825**	312,959
Opening fair value adjustment	**(73,699)**	(67,849)
Opening book cost	**276,126**	245,110
Purchases at cost	**87,377**	87,578
Sale proceeds	**(91,106)**	(88,096)
Gains on sales	**37,971**	31,534
Closing book cost	**310,368**	276,126
Closing fair value adjustment	**(2,293)**	73,699
Closing fair valuation	**308,075**	349,825

IFRS 13 Fair Value Hierarchy

As at 30 June 2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**302,613**	**5,462**	**–**	**308,075**
Closing fair valuation	**302,613**	**5,462**	**–**	**308,075**

As at 30 June 2015	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	349,825	–	–	349,825
Closing fair valuation	349,825	–	–	349,825

An explanation of the transfer between Level 1 and Level 2 and the valuation technique used within Level 2 is set out on page 28 within the Valuation and Ownership of Investments section. All investments are traded on a recognised stock exchange.

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
(Losses)/gains on investments		
Gains on sales	**37,971**	31,534
(Decrease)/increase in fair value adjustment	**(75,992)**	5,850
(Losses)/gains on investments	**(38,021)**	37,384

13 Receivables

	2016 £'000	2015 £'000
Amounts due from brokers	**85**	57
Investment income receivable	**2,533**	1,460
Other receivables and prepayments	**28**	36
	2,646	1,553

The carrying values of receivables approximate to their fair value.

Notes to the Financial Statements

14 Payables

	2016 £'000	2015 £'000
Amounts due to brokers	**456**	674
Other payables	**151**	90
	607	764

The carrying values of payables approximate to their fair value.

15 Zero Dividend Preference Shares

	2016 £'000	2015 £'000
Opening balance	**102,315**	95,850
Capital growth of ZDP Shares	**6,920**	6,465
Closing balance	**109,235**	102,315

Further details on the ZDP Shares are set out on page 20.

16 Share Capital

	Shares	2016 £'000	Shares	2015 £'000
Issued, Allotted and Fully paid				
Ordinary Shares of 1p	109,500,000	1,095	109,500,000	1,095
Total Ordinary Shares	**109,500,000**	**1,095**	109,500,000	1,095
Issued, Allotted and Fully paid				
ZDP Shares of 1p	73,000,000	730	73,000,000	730
Total ZDP Shares	**73,000,000**	**730**	73,000,000	730

At 30 June 2016 there were 109,500,000 Ordinary Shares in issue (30 June 2015: 109,500,000) and 73,000,000 ZDP Shares in issue (30 June 2015: 73,000,000).

17 Net asset value ("NAV") per Share

	2016	2015
Net assets attributable to Equity Shareholders	**£204,582,000**	**£250,511,000**
Ordinary Shares in issue at the end of the year	**109,500,000**	**109,500,000**
Net asset value per Ordinary Share	**186.83p**	**228.78p**
Calculated entitlement of ZDP Shares	**£109,235,000**	**£102,315,000**
ZDP Shares in issue at the end of the year	**73,000,000**	**73,000,000**
Net asset value per ZDP Share	**149.64p**	**140.16p**

The Company does not have any dilutive securities.

Notes to the Financial Statements

18 Capital and Reserves

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 30 June 2014	**1,095**	**67,345**	**43,480**	**96,558**	**10,566**	**219,044**
Retained revenue profit for the year	–	–	–	–	12,095	12,095
Investment income recorded as capital	–	–	–	575	–	575
Net gains on sales	–	–	–	31,534	–	31,534
Movement in fair value adjustment	–	–	–	5,850	–	5,850
Investment management fee charged to capital	–	–	–	(2,012)	–	(2,012)
Transaction costs	–	–	–	(732)	–	(732)
Interest charged to capital	–	–	–	(16)	–	(16)
Dividends paid	–	–	–	–	(9,362)	(9,362)
ZDP Appropriation	–	–	–	(6,465)	–	(6,465)
At 30 June 2015	**1,095**	**67,345**	**43,480**	**125,292**	**13,299**	**250,511**
Retained revenue profit for the year	–	–	–	–	12,663	12,663
Investment income recorded as capital	–	–	–	143	–	143
Net gains on sales	–	–	–	37,971	–	37,971
Movement in fair value adjustment	–	–	–	(75,992)	–	(75,992)
Investment management fee charged to capital	–	–	–	(2,033)	–	(2,033)
Transaction costs	–	–	–	(800)	–	(800)
Interest charged to capital	–	–	–	(11)	–	(11)
Dividends paid	–	–	–	–	(10,950)	(10,950)
ZDP Appropriation	–	–	–	(6,920)	–	(6,920)
At 30 June 2016	**1,095**	**67,345**	**43,480**	**77,650**	**15,012**	**204,582**

Subsequent to the issue of Ordinary Shares on 30 April 2010 the Court confirmed, in July 2010, the cancellation of the entire amount standing to the credit of the Share Premium account and the creation of a Special Reserve, the balance of which may be treated as distributable profits for all purposes, excluding the payment of dividends. The Special Reserve is available to be used for any buy-back of Ordinary Shares and ZDP Shares.

The balance on the Capital Reserve of £77,650,000 (2015: £125,292,000) represents a loss of £2,293,000 (2015: profit of £73,699,000) on investments held and a profit of £79,943,000 (2015: profit of £51,593,000) on investments sold after deducting expenses chargeable to the Capital Reserve.

19 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash and cash equivalents	**3,703**	2,212

Cash held as at 30 June 2016 amounted to £3,618,000 (2015: £2,159,000) at The Royal Bank of Scotland plc and £85,000 (2015: £53,000) at The Northern Trust Company.

20 Financial Instruments

The Board has established an on-going process for identifying, evaluating and managing the key risks associated with financial instruments. As the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, credit, liquidity and interest rate risk.

The Company's financial instruments comprise its investment portfolio (pages 13 to 15), cash balances, ZDP Shares, receivables and payables that arise directly from its operations such as sales and purchases of securities awaiting settlement and accrued income. Note 2 sets out the accounting policies, including criteria for recognition of and the basis of measurement applied for significant financial instruments excluding cash at bank, which is carried at fair value. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

Notes to the Financial Statements

20 Financial Instruments *(continued)*

Market price risk

Market price risk is the risk that the market value of investment holdings will fluctuate as a result of factors other than interest rate or currency rate movement.

The Company is normally a shareholder in between 50 and 100 small quoted companies. Day to day management of the Company's investment portfolio is carried out by its Managers, Aberforth Partners LLP. The Managers have a consistent and well-defined investment process based on fundamental analysis of the constituents of the Company's investment universe. The Board monitors the market price risk inherent in the investment portfolio by ensuring full and timely access to portfolio information provided by the Managers including details of the diversification of the portfolio. The Board meets regularly and at each meeting reviews investment performance and the investment portfolio. It also checks the rationale for the current investment positioning is consistent with the Company's investment objective and investment policy. No derivative or hedging instruments are currently utilised specifically to manage market price risk. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation had fallen by 20% at 30 June 2016, the impact on the profit or loss and therefore Shareholders' equity would have been negative £61.6 million (2015: negative £70.0 million). If the investment portfolio valuation had risen by 20% at 30 June 2016, the impact on the profit or loss and therefore Shareholders' equity would have been positive £61.6 million (2015: positive £70.0 million).

The financial instruments exposed to market price risk were:

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	**308,075**	349,825

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company invests in UK equities traded on the London Stock Exchange. Investment transactions are carried out with a number of FCA regulated brokers. Trades are typically undertaken on a delivery versus payment basis.

Cash at bank is held with reputable banks with acceptable external credit ratings. The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's Custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the Custodian may be delayed or limited. The Board monitors the Company's risk by reviewing Northern Trust's internal control report. As at 22 July 2016 Standard & Poor's credit rating for the Northern Trust Company was "A-1+" for Short-Term Deposits and "Stable" for Outlook.

The maximum exposure to credit risk on the Company's financial instruments was:

	2016 £'000	2015 £'000
Amounts due from brokers	**85**	57
Investment income receivable	**2,533**	1,460
Other receivables	**4**	13
Cash and cash equivalents	**3,703**	2,212
Total	**6,325**	3,742

All of the above financial assets are current, their fair values are considered to be the same as the values shown, and the likelihood of a material credit default is considered to be low.

Notes to the Financial Statements

20 Financial Instruments *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair values or from the inability to generate cash inflows as required.

The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet funding requirements, though short-term funding flexibility can typically be achieved through the use of bank debt facilities.

The ZDP Shares have a planned repayment date of 30 June 2017. All other current liabilities have a payment date of less than three months. The remaining contractual maturities were:

	2016	2015
	£'000	£'000
Due within 1 month:		
Amounts due to brokers	**456**	674
Accrued expenses	**151**	90
Due within 1 year:		
ZDP Shares	**116,581**	–
Due in 1 - 5 years:		
ZDP Shares	**–**	116,581

Interest rate risk

Interest rate risk is the risk that the interest receivable/payable and, indirectly, the market value of investment holdings may fluctuate because of changes in market interest rates. The Company's investment portfolio is not directly exposed to interest rate risk.

Cash balances over £25,000 held at The Royal Bank of Scotland plc yield interest at 0.1% (2015: 0.1%).

If the bank base rate had increased by 1 percentage point, or decreased by 0.5 percentage points, there would be no impact on the profit or loss and Total Equity Shareholders' Funds. There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the Balance Sheet date and are not representative of the financial year as a whole and assume all other variables remain constant.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to any significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

The financial instruments exposed to interest rate risk were:

	2016	2015
	£'000	£'000
Cash and cash equivalents	**3,703**	2,212

Fair value of financial assets and liabilities

Investments are carried in the Balance Sheet at their fair value, which is represented by their bid price valuation. With one exception, all investments held as at 30 June 2016 are categorised as Level 1 using the IFRS 13 fair value hierarchy and all are traded on the London Stock Exchange. The ZDP Shares and all other financial assets and financial liabilities are carried in the Balance Sheet at amortised cost.

Notes to the Financial Statements

21 Capital management policies and procedures

The capital of the Company is set out in note 16 on page 50 and details of the Company's reserves are shown in the Statement of Change in Equity on page 40. The investment objective, investment policy and investment strategy of the Company are set out on page 4.

To achieve the investment objective the Board has a responsibility to ensure the Company is able to continue as a going concern and details of the principal risks and how they are managed are set out on page 5. The Board monitors and reviews the structure of the Company's capital including the extent to which revenue in excess of that which is required to be distributed should be retained. The Companies Act 2006 and Corporation Tax Act 2010 impose capital requirements on the respective ability and obligation to pay dividends. The Board monitors, and has complied with, the externally imposed capital requirements. The Company's investment objective, capital management policies and monitoring processes are unchanged during the year.

22 Contingencies, guarantees and financial commitments

The Company had no contingencies, guarantees or financial commitments as at 30 June 2016.

23 Related party transactions

Under IFRS, the Directors have been identified as related parties and their fees and interests have been disclosed in the Directors' Remuneration Report on pages 31 and 32. During the year no Director or entity controlled by a Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

Shareholder Information

Shareholder register enquiries

Capita Registrars Limited maintains the share register on behalf of the Company. All administrative enquiries relating to Shareholders, such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or an addition to a mailing list should be directed to Capita Registrars Limited on 0371 664 0300 (calls cost 10p per minute plus network extras).

Electronic payment of dividends

Dividends can be received more quickly by instructing Capita Registrars, whose telephone number is given above, to pay them directly into a bank account, with tax vouchers mailed separately. This method is more efficient and avoids the risk of dividend cheques being either delayed or lost in the post.

Dividend Reinvestment Plan (DRIP)

Capita Registrars, on behalf of the Company, operate a DRIP, which can be used to buy additional Ordinary Shares instead of receiving a cash dividend. For further information call 0371 664 0381 (calls cost 10p per minute plus network extras).

Important Dates

Ordinary Shareholders will normally receive two dividends in respect of each financial year: the first interim dividend in February and the second interim dividend in August. The Interim Report for the 6 months to 31 December is normally published in January and the Annual Report for the year to 30 June in July. The Annual General Meeting is normally held in October.

Sources of further information

The prices of the Ordinary Shares and ZDP Shares are quoted daily in the Financial Times in the Investment Companies section under the abbreviation of "AbfGd Inc". These prices, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.ft.com, www.theaic.co.uk and www.morningstar.co.uk. Company performance and other information is available on the Aberforth Partners LLP website at www.aberforth.co.uk.

How to invest

The Company's Ordinary Shares and ZDP Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker or asking a professional advisor. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, PEPs, Savings Schemes or Pension Plans. Each of the Company's listed securities is eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account (ISA).

Retail Distribution

The Company currently conducts its affairs, and intends to continue to conduct its affairs, so that its Ordinary Shares and ZDP Shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products. The Company's Ordinary Shares and ZDP Shares are excluded from the FCA's restrictions that apply to non-mainstream investment products because they are shares in an Investment Trust.

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the remuneration of the AIFM and the Company's leverage is required to be made available to Shareholders. Aberforth Partners maintain remuneration policies and practices that are consistent with the AIFM Directive. A copy of the remuneration policy is available on request from Aberforth Partners. The Company's maximum and actual leverage levels as at 30 June 2016 are shown below:

Leverage Exposure	Commitment Method	Gross Method
Maximum Limit	2.00:1	2.00:1
Actual Level	1.51:1	1.51:1

Security Codes

	ISIN	SEDOL	Bloomberg/Reuters
Ordinary Shares of 1p	GB00B4TR3444	B4TR344	AGIT
ZDP Shares of 1p	GB00B4WLXD25	B4WLXD2	AGIZ

Company Identification Numbers

Global Intermediary Identification Number (GIIN)	AHY315.99999.SL.826
Legal Entity Identifier (LEI)	2138008A77WGCP5LV740

AIC

The Company is a member of The Association of Investment Companies, which produces a detailed Monthly Information Service on the majority of investment trusts. This is available at www.theaic.co.uk.

Glossary

Active Share Ratio	The sum of the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all stocks in the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%. Active Share is addressed in "How Active is Your Fund Manager?" (Antti Petajisto and Martijn Cremers, Yale School of Management, 2009).
Discount	The amount by which the stockmarket price per Share is lower than the Net Asset Value per Share. The discount is normally expressed as a percentage of the NAV per Share.
Gearing/Leverage	The percentage by which the total value of investments exceeds Total Equity Shareholders' Funds.
Hurdle Rate	The rate of capital growth per annum in the Company's investment portfolio to return a stated amount per Share at the planned winding-up date.
Launch Date	30 April 2010
NAV Total Return (Ordinary Share)	The return on Equity Shareholders' Funds assuming that net dividends paid to Ordinary Shareholders are reinvested at the time the Shares went ex dividend.
NAV Total Return (ZDP Share)	The return on the entitlement value of a ZDP Share
NAV	Net Asset Value
Ongoing Charges	The percentage per annum of investment management fees and other operating expenses to the average published Ordinary Shareholders' NAV over the period.
Planned Winding-Up Date	30 June 2017
Portfolio Turnover	The lesser of purchases and sales over a one year period divided by the average portfolio value for that year.
Premium	The amount by which the stockmarket price per Share exceeds the NAV per Share. The premium is normally expressed as a percentage of the NAV per Share.
Projected Final Cumulative Cover	The ratio of the total assets of the Company as at the calculation date, to the sum of the assets required to pay the final capital entitlement of 159.7p per ZDP Share on the planned winding-up date plus future estimated investment management fees charged to capital and estimated winding-up costs.
Redemption Yield (Ordinary Share)	The annually compounded rate of interest at which projected future income and capital cash flows (based on assumed future capital/dividend growth rates) produce an amount equal to the share price at the date of calculation.
Redemption Yield (ZDP Share)	The annually compounded rate of interest at which the total discounted value of the planned future payment of capital equates to its share price at the date of calculation.
Retained Revenue per Share	A cumulative figure calculated after accounting for dividends, including those not yet recognised in the financial statements.
Terminal NAV (Ordinary Share)	The projected NAV per Share at the planned winding-up date at a stated rate of capital growth in the Company's investment portfolio after taking into account the final capital entitlement of the ZDP Shares, future estimated costs charged to capital and planned winding-up costs.
Total Assets Total Return	The return of the combined funds of the Ordinary Shareholders and ZDP Shareholders assuming that net dividends paid to Ordinary Shareholders are reinvested at the time the Shares went ex dividend.
Total Leverage	For the purposes of the AIFM Directive is any method which increases the Company's exposure to stock markets whether through borrowings, derivatives or any other means. It is expressed as a ratio of the Company's exposure to its Net Asset Value. In summary, the Gross method measures the Company's exposure before applying hedging or netting arrangements. The Commitment method allows certain hedging or netting arrangements to be offset. AGIT has no hedging or netting arrangements.
Total Returns	Capital returns with dividends reinvested.

Corporate Information

Investment Managers and Secretaries
Aberforth Partners LLP
14 Melville Street
Edinburgh EH3 7NS
Tel: 0131 220 0733
enquiries@aberforth.co.uk
www.aberforth.co.uk

Registered Office and Company Number
c/o Dickson Minto W.S.
Broadgate Tower
Primrose Street
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Registered in England and Wales
Number 07189761

Depositary
National Westminster Bank plc
Trustee & Depositary Services
Younger Building
3 Redheughs Avenue
Edinburgh EH12 9RH

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

Bankers
The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh EH2 2YB

Registrars
Capita Asset Solutions
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder enquiries:
Tel: 0371 664 0300 (Calls cost 10p per minute plus network extras)
ssd.services@capitaregistrars.com
www.capitaassetservices.com

Shareholder Portal:
www.capitashareportal.com/forms/welcome.aspx

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Solicitors
Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Sponsors
JP Morgan Securities Limited
25 Bank Street
Canary Wharf
London E14 5JP

Notice of the Annual General Meeting

Notice is hereby given that the sixth Annual General Meeting of Aberforth Geared Income Trust plc will be held at 14 Melville Street, Edinburgh EH3 7NS on 25 October 2016 at 2.00 p.m. for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the Report and Financial Statements for the year ended 30 June 2016 be adopted.
2. That the Directors' Remuneration Report be approved.
3. That Michael Greig be re-elected as a Director.
4. That John Richards be re-elected as a Director.
5. That PricewaterhouseCoopers LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Aberforth Partners LLP, *Secretaries*
14 Melville Street, Edinburgh EH3 7NS

22 July 2016

Notes to the Notice of the Annual General Meeting

1. **Attending the Annual General Meeting in person**

   A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote on their behalf. Such a proxy need not also be a member of the Company.

   To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.00 p.m. on 21 October 2016 (or, if the Annual General Meeting is adjourned, 6.00 p.m. on the day two days (excluding non working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

2. **Appointment of Proxy**

   A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the Registrars' website at www.capitashareportal.com and follow the instructions on screen.

   You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different Shares. You may not appoint more than one proxy to exercise rights attached to any one Share. To appoint more than one proxy, please contact the Registrars of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

Notes to the Notice of the Annual General Meeting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 25 October 2016 and any adjournment(s) thereof by using the procedures described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: R055), no later than 48 hours before the time appointed for the meeting.

3. **Questions and Answers**

Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question that is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question within a reasonable period of days after the conclusion of the AGM.

4. **Total Voting Rights**

As at 22 July 2016, the latest practicable date prior to publication of this document, the Company had 109,500,000 Ordinary Shares and 73,000,000 ZDP Shares in issue. The holders of ZDP Shares will not normally be entitled to vote at general meetings of the Company. In respect of the resolutions the Ordinary Shareholders have a total of 109,500,000 voting rights.

5. **Shareholder disclosure obligations**

Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules.

6. **Information on the Company's website**

In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of Shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website at www.aberforth.co.uk.

7. **Nominated Persons**

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between such person and the Shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered Shareholder as to the exercise of voting rights.

8. **Audit concerns**

The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the Auditors) setting out any matter relating to the audit of the Company's Financial Statements, including the Auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold Shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing, state full names and addresses, and be sent to the registered address of the Company.

9. **Documents available for inspection**

The Directors' letters of appointment and a copy of the Articles of Association of the Company will be available for inspection prior to the Annual General Meeting and during the meeting.

Notes to the Notice of the Annual General Meeting

11. Members' rights

Pursuant to section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out below, may, subject to certain conditions, require the Company to circulate to members notice of a resolution that may properly be moved and is intended to be moved at that meeting. The conditions are that: (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (ii) the resolution must not be defamatory of any person, frivolous or vexatious; and (iii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than six weeks before the meeting to which the requests relate.

Pursuant to section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) that may properly be included in the business (a matter of business). The conditions are that: (i) the matter of business must not be defamatory of any person, frivolous or vexatious; and (ii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; (c) must be accompanied by a statement setting out the grounds for the request; (d) must be authenticated by the person or persons making it; and (e) must be received by the Company not later than six weeks before the meeting to which the requests relate.

In order to be able to exercise the members' right to require: (i) circulation of a resolution to be proposed at the meeting; or (ii) a matter of business to be dealt with at the meeting, the relevant request must be made by: (a) a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company; or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.