

HERALD INVESTMENT TRUST PLC
(the “Company”)

HALF-YEARLY FINANCIAL REPORT

For the six months ended 30 June 2020

SUMMARY OF PERFORMANCE

	At inception 16 February 1994	At 30 June 2020	At 31 December 2019	Performance since 31 December 2019	Performance since inception
Capital return					
Net asset value per ordinary share (including current year income) ^A	98.7p	1,795.5p	1,668.1p	7.6%	1,719.1%
Net asset value per ordinary share (excluding current year income) ^A	98.7p	1,799.2p	1,668.1p	7.9%	1,722.9%
Share price	90.9p	1,536.0p	1,480.0p	3.8%	1,589.8%
Numis Smaller Companies Index plus AIM (excluding investment companies)	1,750.0	4,653.9	5,842.6	-20.3%	165.9%
Russell 2000 (small cap) Technology Index (in sterling terms) ⁺	688.7*	3,570.5	3,359.5	6.3%	418.4%

^A Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 78-79 of the annual report and financial statements for the year ended 31 December 2019.

* At 9 April 1996 being the date funds were first available for international investment.

⁺ The Russell 2000 (small cap) Technology Index was rebased during 2009 following some minor adjustments to its constituents. The rebased index is used from 31 December 2008 onwards.

Past performance is not a guide to future performance.

CHAIRMAN'S STATEMENT

In this challenging environment it is gratifying to be able to report an appreciation of 7.6% in the net asset value per share during the first half of 2020. The Company's overseas investment portfolios contributed positively while the UK portfolio experienced a small negative return. This was nevertheless substantially better than various UK indices. It is evident to us all how much the development of the internet has enabled the economy to function as well as it has in lockdown. Working from home has assisted the majority of the Company's investments to continue trading profitably through the period. The outcome for the full year remains uncertain, but on average the profits of companies owned by the Company will be lower than we expected at the start of the year. A few holdings have been materially damaged, whilst others have actually benefited.

The Company's UK portfolio, which accounts for 47.8% of the Company's net assets, has returned -2.0% versus a total return of -19.8% for the Numis Smaller Companies Index plus AIM (excluding investment companies). Within the UK portfolio, on average the return of technology stocks was mildly positive with BATM Advanced Communications the star performer returning £14.9m. However, the media sector, which accounted for 24% of the UK portfolio, delivered a return of -19.9% (-£27.8m). This loss was nearly offset by an exceptional return of £18.5m in ITM Power, where investors have become increasingly convinced by hydrogen as a source of clean energy.

The Manager participated in twenty-three placings for UK companies during the period of which five were related to a cash shortfall caused by COVID-19, and fifteen overseas. We are aware that a further three companies need to raise money which may prove challenging, and there may well be a couple more. In aggregate these holdings are not material. Fortunately, by value the majority of holdings seem to be trading satisfactorily in spite of the adverse economy.

The North American portfolio represents 25.8% of net assets and its performance has been a sparkling 25.4%, which compares very favourably with the total return of the Russell 2000 (small cap) Technology Index of 6.3% in sterling. In contrast, the large capitalisation index has returned 24.2% reflecting the defensive nature of the scalable large companies, which have attracted investors. The takeovers of Mellanox and Adesto completed at the end of June, realising £22.3m in cash, but there have been no new takeover bids made since COVID-19 emerged. Five9 was the best contributor to performance, appreciating by £9.3m. VOIP (voice over internet) call centres are in demand in a lockdown world. Elsewhere, the performance was broadly based with another seventeen holdings appreciating by more than £1m. In percentage terms Veritone led the field, appreciating by 538%, albeit from depressed levels. Ballard Power appreciated by 130%, reflecting the enthusiasm for hydrogen power, and Bandwidth appreciated by 112%. Fifteen of the North American holdings now have a market capitalisation in excess of \$3bn. We do not make new investments in companies above this size, but we retain the holdings if future prospects justify it. These fifteen stocks had an aggregate value of £122m, which is 40% of the total North American portfolio. The aggregate book cost of these holdings is £26m so the average growth multiple has been 4.7x. These stocks delivered a total return of 50.1% in the first half. In part this reflects a success bias, but also demonstrates a material upward rerating of the larger small companies, which is a continuation of the trend seen last year. Valuations are becoming uncomfortably high in this size range.

The continental European portfolio (EMEA) returned 11.6% in sterling. The top performers by value, Esker, BE Semiconductor Industries, Nordic Semiconductor and Isra Vision, have collectively returned £7.9m. However, in percentage terms more recent purchases Raysearch Laboratories (+54%) and Nfon (+46%) have delivered better returns.

The Asian portfolio return of 26.2% in sterling was pleasingly strong. As in North America, the performance was driven by the holdings which now have a market capitalisation in excess of \$3bn. Combined they account for 35% of the Asian portfolio by market value at the period end and three quarters of the return in the period. The return was particularly driven by the performance of Kingdee International Software, a Hong Kong listed competitor to SAP, which returned 149% (£9.4m). In percentage terms, BASE in Japan appreciated more (218%), and so did Momo in Taiwan (172%). In contrast the Australian segment of the portfolio was flat.

Cash balances are high at the period-end and stand at £134m (11.2%) including short-dated Government bonds which are held as a proxy for cash. This level includes cash received from takeovers at the period end, and the amount due in settlement of other takeovers is now minimal. However, much of the cash has been held in overseas currencies, and sterling weakness has meant that overall the drag from cash relative to the equity returns has been minimal. The Manager prefers to retain a cash buffer to ensure that existing investments can be further funded, to take advantage of opportunities, and to stand ready to exploit any market weakness. Liquidity is still patchy, so a war chest seems appropriate. During the period, 545,000 shares have been repurchased at a cost of £7.6m.

The dividend income has fallen sharply by 48%. It would be wise not to read too much into this figure in the short-term because many companies had to make a decision at the peak of uncertainty and thought it prudent to cancel. Some are likely to consider reinstating dividends later in the year. The figures are small in relation to the capital return and, as an investment trust focused on capital growth, the Company does not typically pay a dividend in any case.

The poorer performance in the UK compared to overseas holdings is disappointing, but there is sensible value even in the media sector, and companies with an overseas exposure will benefit from sterling weakness on a delayed basis, whereas overseas holdings have benefited instantly.

The technology sector is diverse but working from home has accelerated the disruption that the internet is causing. For example, there is an evident upturn in demand for internet shopping, internet bandwidth, internet communications including video conferencing, cloud-based applications and so on. Meanwhile, working from home will further drive the requirement for computer security.

The Manager has always made meetings with companies central to its investment process. Clearly this has not been possible in recent months. The team has undertaken over 500 telephone or video calls with investee and potential investee companies, which is a similar rate to the number of meetings it would have had in previous years, but unfortunately provides an inferior experience for gathering information as compared to physical meetings. It is manageable for a sustained period but is not the team's preferred way of working on a permanent basis.

OUTLOOK

It is perhaps surprising that the overall returns have been positive when COVID-19 has led to economic havoc, and technology is at the eye of the storm in trade tensions between China and the United States. Share price increases have led to the valuation rating of the portfolio rising from a p/e ratio of 21.4x at the start of the year to one of 25.3x Bloomberg estimates. Furthermore, analysts' forecasts rarely reflect share-based compensation so valuations are really higher than they have been at any time other than the internet bubble of 2000. However, there is no comparison with that period as most investee companies are solidly generating cash. In addition, the challenge for investors in finding value anywhere makes these valuations less unattractive, and it is evident that there is more interest in the TMT sector. The caveat is that the economic outlook remains precarious, and forecasts are more uncertain than usual.

Ian Russell

Chairman

16 July 2020

TOP TWENTY EQUITY HOLDINGS

At 30 June 2020

Company	Business	Value £'000	% of total assets
GB Group	Intelligent identity data, software and services	36,603	3.1
Diploma	Distributor of components and systems	26,675	2.2
Pegasystems	Develops applications for sales, marketing and operations	25,879	2.2
BATM Advanced Communications	Develops networking, cybersecurity and biomedical solutions	23,596	2.0
Future	Multi platform media company	21,137	1.8
YouGov	International opinion data surveys and analytics	20,815	1.7
Five9	Developer of cloud contact centre software	20,007	1.7
ITM Power	Manufacturer of electrolyser systems for hydrogen production	19,304	1.6
Descartes Systems	Supplier of logistics management software	18,335	1.5
LivePerson	Developer of customer interaction management software	16,718	1.4
Idox	Developer of information management software	15,636	1.3
Silicon Motion Technology ADR*	Develops controllers used with flash memory	14,033	1.2
Kingdee International Software	Developer of enterprise application software	13,990	1.2
Radware	Developer of application delivery and cyber security solutions	13,707	1.1
Next Fifteen Communications	Digital communications provider	13,599	1.1
Bango	Supplier of mobile payment solutions	13,082	1.1
Telecom Plus	Provider of telecommunications and other utilities	13,018	1.1
BE Semiconductor Industries	Supplier of semiconductor assembly equipment	12,583	1.0
IQE	Design and manufacture of compound semiconductor wafers	11,243	0.9
Esker	Developer of process automation software	10,182	0.8
		360,142	30.0

* American Depositary Receipt.

GEOGRAPHICAL SPREAD OF INVESTMENTS

(Distribution of total assets)

Region	At 30 June 2020 %	At 31 December 2019 %
UK	47.8	52.2
EMEA**	6.5	6.0
North America	25.8	23.0
Asia	8.7	6.8
Net Liquid Assets & Government Bonds*	11.2	12.0

* Cash, current assets and liabilities.

** EMEA stands for Europe, Middle East and Africa.

TOP FIVE WINNERS AND LOSERS

For the six months ended 30 June 2020 in sterling terms (millions)

TOP 5 WINNERS

ITM Power	18.5
BATM Advanced Communications	14.9
Kingdee International Software	9.4
Five9	9.3
Pegasystems	6.8

TOP 5 LOSERS

Next Fifteen Communications	-6.6
GB Group	-6.2
Aptitude Software	-6.0
Euromoney Institutional Investor	-4.4
Time Out	-4.1

CONDENSED INCOME STATEMENT
(Unaudited)

	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Realised gains on investments	-	53,893	53,893	-	22,049	22,049
Movements in unrealised gains on investments	-	29,962	29,962	-	130,456	130,456
Currency gains	-	2,168	2,168	-	68	68
Income	3,527	-	3,527	5,962	-	5,962
Investment management fee - note 3	(5,480)	-	(5,480)	(5,113)	-	(5,113)
Other administrative expenses	(373)	(54)	(427)	(331)	(7)	(338)
(Loss)/profit before finance costs and taxation	(2,326)	85,969	83,643	518	152,566	153,084
Finance costs of borrowings	-	-	-	(77)	-	(77)
(Loss)/profit before taxation	(2,326)	85,969	83,643	441	152,566	153,007
Taxation	(109)	-	(109)	(150)	-	(150)
(Loss)/profit after taxation	(2,435)	85,969	83,534	291	152,566	152,857
(Loss)/profit per ordinary share - note 4	(3.63)p	128.18p	124.55p	0.43p	222.94p	223.37p
Weighted average number of ordinary shares in issue during the period	67,070,976			68,432,796		

The total column of this statement is the profit and loss account of the Company, prepared in accordance with UK Accounting Standards.

The (loss)/profit after taxation is the total comprehensive income and therefore no additional statement of other comprehensive income is presented. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the period.

CONDENSED BALANCE SHEET
(Unaudited)

	As at 30 June 2020 (unaudited) £'000	As at 31 December 2019 (audited) £'000
Fixed assets		
Investments held at fair value through profit or loss	1,109,554	1,033,226
Current assets		
Cash and cash equivalents	89,792	88,843
Other receivables	692	1,995
	90,484	90,838
Current liabilities		
Other payables	(1,227)	(1,215)
Net current assets	89,257	89,623
TOTAL NET ASSETS	1,198,811	1,122,849
Capital and reserves		
Called up share capital	16,692	16,828
Share premium	73,738	73,738
Capital redemption reserve	5,260	5,124
Capital reserve	1,104,306	1,025,909
Revenue reserve	(1,185)	1,250
SHAREHOLDERS' FUNDS	1,198,811	1,122,849
NET ASSET VALUE PER ORDINARY SHARE (including current year income)	1795.52p	1,668.13p
NET ASSET VALUE PER ORDINARY SHARE (excluding current year income)	1799.17p	1,668.08p
Ordinary shares in issue	66,766,777	67,311,777

CONDENSED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2020	16,828	73,738	5,124	1,025,909	1,250	1,122,849
Profit after taxation	-	-	-	85,969	(2,435)	83,534
Shares purchased for cancellation - note 8	(136)	-	136	(7,572)	-	(7,572)
Shareholders' funds at 30 June 2020	16,692	73,738	5,260	1,104,306	(1,185)	1,198,811

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2019	17,225	73,738	4,727	804,245	1,219	901,154
Profit after taxation	-	-	-	152,566	291	152,857
Shares purchased for cancellation - note 8	(141)	-	141	(6,693)	-	(6,693)
Shareholders' funds at 30 June 2019	17,084	73,738	4,868	950,118	1,510	1,047,318

CONDENSED CASH FLOW STATEMENT
(Unaudited)

	For the six months ended 30 June 2020 £'000	For the six months ended 30 June 2019 £'000
Cash flow from operating activities		
Profit before finance costs and taxation	83,643	153,084
Adjustments for gains on investments	(83,855)	(152,505)
Purchase of investments	(94,327)	(76,179)
Sale of investments	101,915	56,095
Return of capital	13	-
Decrease/(increase) in other receivables	1,319	(61)
Increase in other payables	51	85
Amortisation of fixed income book cost	(81)	(175)
Effect of foreign exchange rate changes	(2,168)	(68)
Overseas tax on overseas income	(118)	(150)
Net cash inflow/(outflow) from operating activities	6,392	(19,874)
Cash flow from financing activities		
Undrawn facility fee paid	(39)	(117)
Shares purchased for cancellation – note 8	(7,572)	(6,693)
Net cash outflow from financing activities	(7,611)	(6,810)
Net decrease in cash and cash equivalents	(1,219)	(26,684)
Cash and cash equivalents at start of the period	88,843	68,860
Effect of foreign exchange rate changes	2,168	68
Cash and cash equivalents at end of the period	89,792	42,244
Comprised of:		
Cash and cash equivalents	89,792	42,244

Cash flow from operating activities includes interest received of £827,000 (2019 – £638,000) and dividends received of £3,323,000 (2019 – £4,843,000).

As the Company did not have any long-term debt at both the current period and prior year end, no reconciliation of the net debt position is presented.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1 Financial Statements

The condensed financial statements for the six months to 30 June 2020 within the Half-yearly financial report comprise the statements set out above together with the related notes that follow below. The condensed financial statements do not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006 and have not been audited. Financial information in relation to the year ended 31 December 2019 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Company's assets, which largely consist of investments in quoted securities, exceed its liabilities significantly. All borrowings require the prior approval of the board. Gearing levels are reviewed by the board on a regular basis. In accordance with the Company's articles of association, shareholders have the right to vote on the continuation of the Company every three years with the next vote being in April 2022. Following consideration of the impact of COVID-19, no material events have been identified that may cast significant doubt about the Company's ability to continue as a going concern for at least the next twelve months from the date this Half-yearly financial report is published. The condensed financial statements have been prepared on a going concern basis and it is the directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future.

2 Accounting policies

The condensed financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, FRS 104 Interim Financial Reporting and the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in October 2019.

The accounting policies applied for the condensed financial statements are as set out in the Company's annual report and financial statements for the year ended 31 December 2019.

3 Investment management fee

Herald Investment Management Limited is appointed investment manager under a management agreement which is terminable on twelve months' notice. Their fee is calculated on a monthly rate of 0.08333% of the Company's net asset value (excluding current year net income) based on middle market prices. The management fee is levied on all assets.

4 Net return per ordinary share

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Revenue (loss)/profit after taxation	(2,435)	291
Capital profit after taxation	85,969	152,566
Total net return	83,534	152,857
Weighted average number of ordinary shares	67,070,976	68,432,796

Net return per ordinary share is based on the above totals of revenue and capital and the weighted average number of ordinary shares in issue during each period.

There are no dilutive or potentially dilutive shares in issue.

5 Dividends

In accordance with FRS 102 Section 32 'Events After the End of the Reporting Period', the final dividend payable on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

No dividends were paid for the year ended 31 December 2019 (2018: same), nor declared for the interim (2019: same).

6 Borrowings

The Company had a £25 million multi-currency revolving credit facility, which matured on 31 December 2019.

7 Financial instruments

The Company's investments as disclosed in the Company's balance sheet are valued at fair value.

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 102.

The three levels set out in FRS 102 are as follows:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The investment manager considers observable data to be the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The analysis of the valuation basis for the financial instruments based on the hierarchy is as follows:

	As at 30 June 2020 £'000	As at 31 December 2019 £'000
Level 1	1,089,340	1,018,171
Level 3	20,214	15,055
Total fixed assets	1,109,554	1,033,226

The fair value of listed security investments is bid value. Investments on the Alternative Investment Market are included at their bid value. The fair value of unlisted investments uses valuation techniques determined by the directors on the basis of latest information in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines.

8 Share capital

At the AGM held on 17 April 2020 the Company's authority to buy back up to 14.99% of its issued share capital at that date was renewed. In the six months to 30 June 2020 a total of 545,000 (30 June 2019 – 566,191) ordinary shares of 25p each were bought back and cancelled at a total cost of £7,572,149 (30 June 2019 - £6,693,239). At 30 June 2020 the Company had authority to buy back a further 9,753,310 ordinary shares.

9 Fixed asset investments

During the period, cost of purchases amounted to £94,327,000 (30 June 2019 - £78,878,000) and proceeds of sales amounted to £101,922,000 (30 June 2019 - £74,054,000).

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Transaction costs		
Commission costs:		
Purchases	149	95
Sales	132	100
Total commission costs	281	195
Custody transaction costs	4	7
Other transaction costs	17	20
Total transaction costs	302	222

INVESTMENT POLICY AND OBJECTIVE

Herald's objective is to achieve capital appreciation through investments in smaller quoted companies in the areas of technology, media and telecoms ('TMT'). Investments may be made throughout the world. The business activities of investee companies will include information technology, broadcasting, printing and publishing and the supply of equipment and services to these companies. The investment policy is set out in full on page 34 of the Company's annual report and financial statements for the year ended 31 December 2019 and remains unchanged.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 17 of the Company's annual report and financial statements for the year ended 31 December 2019. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage); operational/financial/custody risk (failure of service providers' accounting and/or settlement systems could lead to inaccurate reporting or financial loss); emerging risk (failure to have in place procedures that assist in identifying new or familiar risks that become apparent in new or unfamiliar conditions); the risk that the discount can widen; and gearing risk (the use of borrowings can magnify the impact of falling markets). Further information can be found on page 35 of the annual report and financial statements for the year ended 31 December 2019.

Subsequent to the year end a pandemic (COVID-19) risk arose with restrictions to movement of people and disruption to business operations impacting global portfolio company valuations and returns and potentially impacting the operational resilience of the Company's service providers. As the impact of COVID-19 continues, the directors and Herald Investment Management Limited ('the Manager') continue to monitor the situation closely.

In the view of the board, other than the pandemic risk noted above, there have not been any material changes to the principal risks and uncertainties since the publication of the annual report and financial statements for the year ended 31 December 2019, and these risks and uncertainties remain applicable to the last six months of the year. The annual report can be obtained free of charge from the Manager and is available on its website: www.heralduk.com.

GOING CONCERN

The board is mindful of the uncertainty surrounding the COVID-19 pandemic's duration. Thus far, the portfolio has proved resilient and the board is satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The board believes that the Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels throughout the COVID-19 pandemic.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with FRS104 'Interim Financial Reporting' published by the Financial Reporting Council and gives a true and fair view of the assets, liabilities, financial position and profit of the Company;
- b) the Half-yearly financial report and interim management report (Chairman's Statement) includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months, and their impact on the financial statements and a description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-yearly financial report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein). There have been no such transactions that have materially affected the financial position of the Company.

By order of the board

Ian Russell
Chairman
16 July 2020

The Half-yearly financial report will be published later today on the Manager's website: www.heralduk.com and posted to shareholders on or around 31 July 2020.

Contacts:

Katie Potts, Manager 020 7553 6300

Law Debenture Corporate Services Limited 020 7696 5233

Company Secretary