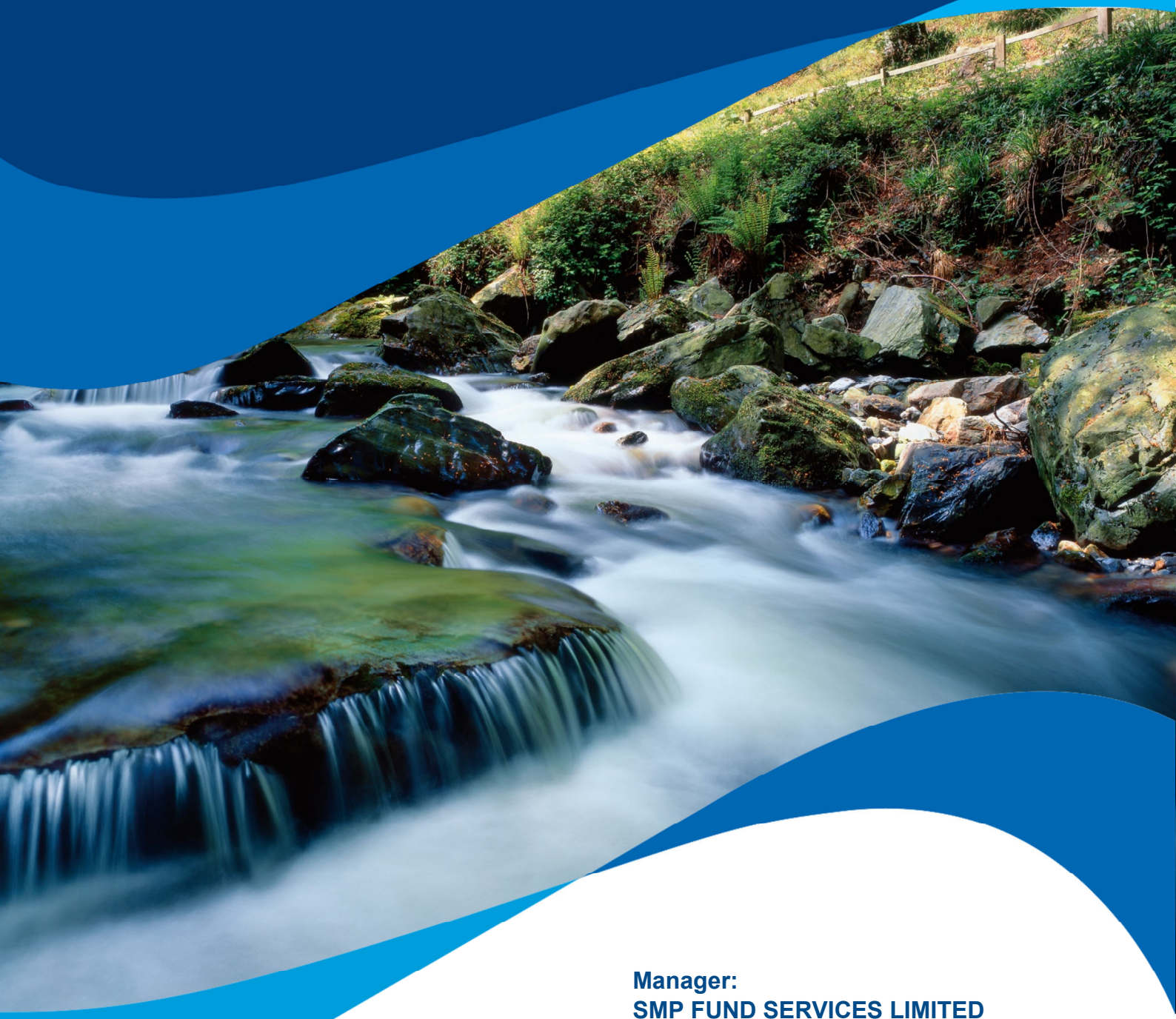
SMP Sterling Roll-Up Fund PLC

Unaudited Abbreviated Interim Report for the six month period ended 29 February 2020



Manager:
SMP FUND SERVICES LIMITED
Clinch's House,
Lord Street
Douglas, Isle of Man
IM99 1RZ

General Information

Directors

W J Clarke* (Chairman)
G M Easton*
R K Corkill
S W Bowden
* denotes Non-executive Director

Company Secretary

R K Corkill

Manager and Registrar

SMP Fund Services Limited
Clinch's House, Lord Street, Douglas
Isle of Man, IM99 1RZ
British Isles

Investment Manager

Aberdeen Asset Managers Limited
10 Queen's Terrace,
Aberdeen, AB10 1YG
British Isles

Fiduciary Custodian

Apex Financial Services (Corporate) Limited
12 Castle Street, St Helier
Jersey, JE2 3RT
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Auditor

PricewaterhouseCoopers LLC
Sixty Circular Road, Douglas
Isle of Man, IM1 1SA
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Manager's Report

As detailed in the previous section entitled 'General Information', SMP Sterling Roll-Up Fund PLC (the "Fund") is managed by SMP Fund Services Limited (the "Manager") and the investment manager is Aberdeen Asset Managers Limited (the "Investment Manager"). That section also details the Directors, the Company Secretary, the Fiduciary Custodian and the Auditor.

Introduction

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and is managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 (the "Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with the Regulations, the Fund complies with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (the "SORP"). The Fund was originally established and authorised on 28 January 1993.

The term 'roll-up fund' from which the Fund's name is derived, describes a fund which retains its income and gains within the fund in order to enhance the capital value of the fund and hence is reflected in the share price. Therefore no dividends are paid to shareholders. Roll-up funds can have considerable administrative advantages to investors who do not require a regular income from their investments and prefer to accumulate income within their investment without the need to re-invest dividends.

Important information

The Unaudited Interim Financial Statements for the six-month period ended 29 February 2020 (together with this Unaudited Abbreviated Interim Report for the six-month period ended 29 February 2020 that has been sent to all registered shareholders) may be viewed on our website - www.smppartners.com and are available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund.

If shareholders have any questions regarding the Fund please contact our Shareholder Services Team on 01624 682224 - or by email to fund.services@smppartners.com.

Investment objective, policy and strategy

The Fund's investment objective is to provide investors with a high return, before taxation, from a managed portfolio of predominantly fixed-interest securities, denominated in sterling, with all income being accumulated in the price of shares.

Investment Manager's overview for the six-month period ended 29 February 2020

Market review

The six months under review have been volatile in financial markets. Economic data, trade wars, Brexit and political uncertainty were all contributory factors, but the scale of the coronavirus pandemic – and its implications for the global economy – has been the primary influence on markets.

While bond yields rose in many government markets in the final months of 2019, corporate bond markets performed well as risk appetite remained strong. In investment grade markets, spreads were materially tighter with the US and sterling markets leading the way. High yield and emerging markets were also strong. European high yield indices were approximately 60 basis points (bps) tighter, leading to some good returns. This more positive environment for risk assets came about as global economic data appeared to be picking up modestly and a 'phase one' trade deal between the US and China was agreed. Global central banks also appear to be prepared to maintain – or even extend – their accommodative stances going forward, thus providing further confidence.

The New Year started optimistically. China and the US would sign a 'phase-one' initial trade agreement in the middle of the month; the UK general election in mid-December settled the endless debates about Brexit; and economic data from Europe was generally better than expected. Credit spreads focused on the positive economic news, causing them to tighten however, after 20 January the mood changed dramatically. The number of cases of the China coronavirus outbreak started to increase by around 30% per day, causing markets to consider the potential impact on global growth. The oil price fell by just under 12% from this date to month end, reflecting concerns about lower demand from China. Government bond yields reacted by moving sharply lower. Due to the large moves in government bonds, total returns for sterling credit were healthy.

In February, the coronavirus spread from being a Far East problem to being a pandemic and present in at least 50 countries, equity markets experienced their fastest correction in history. In the last week in February, the markets started to take the view that the impact on the global economy would be substantial and should lead to a response from central banks, with liquidity injections and rate cuts, and fiscal stimulus from governments. The move in yields was eye-catching; the UK 10-year benchmark gilt fell 0.08% in yield terms, ending the month at 0.44%. The US 10-year government benchmark fell 0.35 percentage points to end at 1.15%. The increase in equity market volatility and falling bond yields has had an impact. Sterling credit spreads widened from 26 February to end the month 15 basis points (bp) wider at 145bp. This left the market in negative total return territory, even after the aforementioned large moves in yields. The higher beta sections of the market such as banks and insurance led the way. They were matched by industrials, which were affected particularly through the airport sector.

Performance and activity of the Fund

The Fund slightly underperformed the sterling non-government credit market in September. Performance from security selection lacked broad themes; EDF bonds were weak across the curve following reports that Hinckley Point costs would swell by up to £2 billion. Elsewhere, there was some profit-taking in bonds from DS Smith following strong performance in August. More positively, housing associations such as Peabody and London and Quadrant, provided a little more comfort, again retracing weaker moves from previous months.

Performance was strong in the final three months of 2019. While an overweight exposure to falling yields cost performance in October as yields rose, this was more than offset by the Fund's overweight to credit market movements. Annington Finance, Tesco Property and Well Tower were notable outperformers. Against that, there was underperformance from gilt positions. In November, we reduced the Fund's exposure to M&G and Barclays as part of a general reduction in financial bonds. Most outperformance relative to benchmark came from the Fund's overweight position in credit risk – notably, insurance bonds. Asset allocation among sectors was also beneficial, and an underweight stance in government-related bonds helped. We added a position in AbInBev, a global brewing group, and participated in new Issues from National Express and Fidelity National Information. Most of December's outperformance came from an overweight position in credit risk. In particular, UK bank and insurance names rallied strongly after the UK general election result.

In January, the Fund benefited from its holdings in UK real estate, utilities and UK banks. With the growth of the number of cases of coronavirus, we sold a number of positions that could be exposed. These included Intercontinental Hotels; around 8% of its revenue is derived from the Chinese market, and GM; the company could struggle to sort out supply chain difficulties caused by factory shutdowns in China. We reduced exposure to Heathrow for similar reasons. In February, we sold some of our HSBC exposure, owing to political unrest in Hong Kong and mounting concerns about the coronavirus. We participated in a new issue from First Abu Dhabi Bank at attractive levels for a highly-rated, sovereign-backed bank.

Outlook*

After a very sluggish end to 2019, when the economy looked set to have flat-lined at best, there is growing evidence that the economy has returned to reasonable growth in 2020. Sentiment surveys have bounced back sharply following the election result, with the composite purchasing managers' index now at a 16-month high consistent with growth of around 0.3% quarter-on-quarter. However, we are sceptical that the recovery in these surveys represents a profound turning point for the economy. Throughout 2019, surveys consistently overstated the degree of weakness in the underlying activity data suggesting that these are extremely sensitive to swings in headline noises. It is hard to have much conviction on an outlook from here, especially with many companies revising their own forecasts for 2020 in the wake of the spread of the coronavirus. However, it is worth noting that the February moves take the index level back to late October 2019 levels – not a point in time when we thought the market looked cheap. With this in mind, we are inclined to remain with our lower risk positioning achieved over the last few months, waiting for an entry level that reflects the stress the global economy is likely to go through in the first half of 2020.

*Investments markets and conditions can change rapidly and as such, the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Comparative Table

Change in net asset value per share

	2020* p	2019 p	2018 p
Opening net asset value per share	433.91	398.76	404.71
Return before operating charges**	8.71	39.21	(1.69)
Operating charges	(2.42)	(4.06)	(4.26)
Return after operating charges**	6.29	35.15	(5.95)
Distributions on preference shares	-	-	-
Closing net asset value per share	440.20	433.91	398.76
*For the six-month period ended 29 February 2020			
*after direct transaction costs of	0.02	0.03	0.08

Performance

	2020*	2019	2018
Return after charges	1.45%	8.81%	(1.47)%

Other information

	2020*	2019	2018
Closing net asset value	£17,884,366	£18,770,742	£19,400,964
Closing number of shares	4,062,753	4,325,991	4,865,357
Operating charges	0.55%	0.98%	1.06%
Direct transaction costs	0.004%	0.008%	0.021%

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

Performance record for the period/year ended

	Highest share price p	Lowest share price p	Net allocation per share*** p
01.09.2015 to 31.08.2016	431.57	349.41	51.35
01.09.2016 to 31.08.2017	429.66	379.16	(2.81)
01.09.2017 to 31.08.2018	430.02	392.54	(6.47)
01.09.2018 to 31.08.2019	434.11	390.59	34.04
01.09.2019 to 29.02.2020	442.98	426.01	6.01

****Net allocation per share is based on average shares during the period/year.*

Net asset value record for the period/year ended

	Net asset value of participating shares £	Shares in issue	Cancellation price per share p
31 August 2018	19,400,964	4,865,357	398.76
31 August 2019	18,770,742	4,325,991	433.91
29 February 2020	17,884,366	4,062,753	440.20

Ongoing charges figure ("OCF") for the period/year ended

	OCF*
31 August 2017	0.96%
31 August 2018	1.06%
31 August 2019	0.98%
29 February 2020**	0.55%

**OCF is the total expenses paid by the Fund in the period/year expressed as a percentage of the Fund's average net asset value.*

**Charges in the six-month period 29 February 2020, annualised.

Details of investments

	% of Fund's property 29.02.2020	% of Fund's property 31.08.2019
Government bonds	2.18	1.91
Corporate bonds	97.31	96.15
Bank balances	0.51	1.94
	100.00	100.00

Top five holdings

Asset description	% of Fund's property 29.02.2020	Asset description	% of Fund's property 31.08.2019
1. TRANSPORT FOR LONDON 2.125% 24/04/2025	3.00	1. TRANSPORT FOR LONDON 2.125% 24/04/2025	2.86
2. United Kingdom Gilt 4.5% 12/07/2042	2.18	2. ELECTRICITE DE FRANCE SA 6.25% 30/05/2028	1.86
3. ELECTRICITE DE FRANCE SA 6.25% 30/05/2028	1.92	3. HSBC HOLDINGS PLC 2.256% 13/11/2026	1.58
4. SNCF RESEAU 4.83% 25/03/2060	1.42	4. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	1.45
5. Equity Release Funding No 3 PLC 5.05% 26/04/2033	1.37	5. SNCF RESEAU 4.83% 25/03/2060	1.34

The Unaudited Abbreviated Interim Report for the six-month period ended 29th February 2020 is approved and authorised for issue by the Manager.

R K Corkill
Director

D F Hudson
Director

SMP Fund Services Limited
22 April 2020

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