

This document has been issued by Aberforth Partners LLP (the AIFM) solely in order to make particular information available to investors in Aberforth Smaller Companies Trust plc (the Company) before they invest, in accordance with the requirements of the FCA Rules implementing the AIFM Directive in the United Kingdom. This document is being made available to investors in the Company at www.aberforth.co.uk.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

ABERFORTH SMALLER COMPANIES TRUST PLC

INVESTOR DISCLOSURE DOCUMENT

IMPORTANT INFORMATION

Regulatory status of the Company

Aberforth Smaller Companies Trust plc is an 'alternative investment fund' (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the AIFM Directive).

The Company's shares are listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the main market of the London Stock Exchange. The Company is subject to its Articles of Association (Articles), the Listing Rules, the Disclosure and Transparency Rules, the UK Corporate Governance Code and the Companies Act 2006.

The provisions of the Company's Articles are binding on the Company and its shareholders. The Articles set out the respective rights and restrictions attaching to the Company's shares. These rights and restrictions apply equally to all shareholders. All shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the Company's Articles.

Limited purpose of this document

This document is issued solely in order to make required regulatory disclosures to investors and, to the fullest extent permitted under applicable law and regulations, the AIFM, the Company and its Directors will not be responsible to persons other than the Company's shareholders for their use of this document, nor will they be responsible to any person (including the Company's shareholders) for any use which they may make of this document.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation to buy or sell, or otherwise undertake investment activity in relation to, the Company's shares.

This document is not a prospectus and it is not intended to be an invitation or inducement to any person to engage in any investment activity. This document is not intended to include all the information which investors and their professional advisers may require for the purpose of making an informed decision in relation to an investment in the Company.

No advice given

The AIFM, the Company and its Directors are not advising any person in relation to any investment or other transaction involving shares in the Company. Recipients must not treat the contents of this document or any subsequent communications from the AIFM, the Company, or any of its affiliates, officers, Directors, employees or agents, as advice relating to financial, investment, taxation, accounting, legal, regulatory or any other matters. Prospective investors must rely on their own professional advisers, including their own legal advisers and accountants, as to legal, tax, accounting, regulatory, investment or any other related matters concerning the Company and an investment in its shares.

Overseas investors

The distribution of this document in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. The shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under any of the relevant securities laws of Canada, Australia or Japan. Accordingly, the shares may not (unless an exemption from such Act or such laws is available) be offered, sold or delivered, directly or indirectly, in or into the USA, Canada, Australia or Japan. The Company is not registered under the United States Investment Company Act of 1940 (as amended) and investors are not entitled to the benefits of such Act.

Prospective investors must inform themselves as to (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of shares.

THE COMPANY

Background

The Company is a UK investment trust whose shares are traded on the London Stock Exchange. It was launched and listed on the London Stock Exchange on 10 December 1990. The Company's registered office is 14 Melville Street, Edinburgh EH3 7NS. The Company was established in Scotland and its Articles of Association are governed by the Companies Acts of the United Kingdom.

Investment Objective

The investment objective of the Company is to achieve a net asset value total return (with dividends reinvested) greater than that of the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC) or benchmark) over the long term.

Investment Policy

The Company aims to achieve its objective by investing in small UK quoted companies. These are companies with a market capitalisation, at time of purchase, equal to or lower than that of the largest company in the bottom 10% of the main UK equity market or companies in the NSCI (XIC). At 1 January 2021 (the date of the last annual index rebalancing), the index included 334 companies, with an aggregate market capitalisation of £141 billion, and its upper market capitalisation limit was £1.5 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities will become candidates for sale.

Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies. The Company may, at time of purchase, invest up to 15% of its assets in any one security. However, 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's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except where either an investee company moves from the main market to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the main market (so as to enable investment before a full listing is obtained). The Company does not invest in any unquoted companies. Neither does the Company invest in securities issued by other UK listed closed-ended investment funds except where they are eligible to be included in the NSCI (XIC). In any event, the Company will invest no more than 15% of total assets in other listed closed-ended investment funds.

The AIFM aims to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company may use borrowings tactically, when considered appropriate, in order to enhance returns. The Board believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term.

Board of Directors

It is the responsibility of the Board of Directors to ensure that there is effective stewardship of the Company's affairs. The Board of Directors comprise Mr R G Davidson (Chair), Mrs J Le Blan (Chair of the Audit Committee), Mrs P M Hay-Plumb, Mr R A Rae, Mrs V K Stewart and Mr M R Warner. Further details of the Directors can be obtained in the most recent Annual Report.

Leverage

The Company is permitted to use borrowings to increase the exposure of the portfolio. This is known as "gearing" or "leverage". The Board, in conjunction with the AIFM, is responsible for determining the parameters for leverage. When considered appropriate, leverage is used tactically in order to enhance returns.

The leverage that the Company may employ is limited to 100% of the Adjusted Total of Capital and Reserves as defined in Article 123 of the Articles (effectively the net assets of the Company).

Changes to leverage

Any changes to this maximum level of leverage that the AIFM may employ on behalf of the Company will only be implemented after consultation between the Board and the AIFM. Any material changes to the maximum level of leverage will require the approval of shareholders by passing an ordinary resolution.

The total amount of leverage currently available to the Company is represented by a £130 million three year borrowing facility and a £20 million overdraft facility. The level of gearing during 2020 ranged from nil to 7.0%.

Investment restrictions

The Company may only invest in small UK quoted companies as defined in the Investment Policy.

A maximum of 15% of the assets of the Company may be invested in any one security at the time of purchase.

The Company may not invest in any unquoted companies. Neither does the Company invest in securities issued by other UK listed closed-ended investment funds except where they are eligible to be included in the NSCI (XIC). In any event, the Company will invest no more than 15% of total assets in other listed closed-ended investment funds.

No derivatives or hedging instruments are being used to manage market price risk.

Investment strategy and investment techniques

The AIFM adheres 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 AIFM selects 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" risk evaluation is undertaken regularly by the AIFM. The AIFM's analysis involves the 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 typically sold when their valuations reach the targets determined by the AIFM.

In order to improve the ability to achieve the investment objective, the AIFM believes that the portfolio must be adequately differentiated from the benchmark index. Therefore, within the diversification parameters described in the Investment Policy, the AIFM regularly reviews the level of differentiation, with the aim of maximising the active weight of each holding within the portfolio.

Changes to Investment Policy

As a closed-ended investment fund whose shares are admitted to the Official List under Chapter 15 of the Listing Rules, the Company is required to obtain the prior approval of its shareholders for any material change to its published investment policy. The Company's published investment policy is set out in the section entitled 'Investment Policy' above.

Any change in investment strategy or investment policy which does not amount to a material change to the published investment policy may be made without shareholder approval.

The Company will update this document annually or more frequently if necessary and make the most recent version available on the AIFM's website at www.aberforth.co.uk.

ADMINISTRATION AND MANAGEMENT OF THE COMPANY

The Alternative Investment Fund Manager (AIFM)

The AIFM is Aberforth Partners LLP, a limited liability partnership incorporated in England & Wales, having its registered office at Level 13, Broadgate Tower, 20 Primrose Street, London EC2A 2EW and having a place of business at 14 Melville Street, Edinburgh EH3 7NS.

The AIFM is authorised and regulated by the United Kingdom Financial Conduct Authority (firm reference number 435657).

The duties of the AIFM

The Company has appointed the AIFM to act as its AIFM with responsibility for, *inter alia*, the portfolio management and risk management of the assets of the Company.

The fees payable to the AIFM by the Company

The AIFM receives an annual management fee, payable quarterly in advance by the Company, equal to:

- (i) 0.75% of the net assets of the Company up to £1bn; plus
- (ii) 0.65% of the net assets of the Company greater than £1 billion (if any).

The Depositary

The Depositary is NatWest Trustee and Depositary Services Limited, a public limited company incorporated in England & Wales having its registered office at 250 Bishopsgate, London EC2M 4AA and whose ultimate parent company is NatWest Group plc.

The duties of the Depositary

The Company appointed the Depositary, as required by the AIFM Directive, to undertake various functions including safekeeping of assets and the monitoring of cashflows, changes in issued share capital and the valuation of assets.

Delegation by the Depositary

With the consent of the Company, the Depositary has delegated the safekeeping of assets to The Northern Trust Company, 50 Bank Street, Canary Wharf, London E14 5NT. Northern Trust was the Company's custodian prior to the AIFM Directive coming into effect.

The liability of the Depositary

The Depositary has not entered into any arrangement contractually to discharge itself of liability, in accordance with Article 21(13) of the AIFM Directive. The Company will notify shareholders of any changes with respect to the discharge by the Depositary of its liability in accordance with Article 21(13) of the AIFM Directive through a Regulatory Information Service.

The fees payable to the Depositary by the Company

The Depositary receives annual fees, payable quarterly in arrears, equal to 0.0085% of the net assets of the Company.

The Auditor

Deloitte LLP, chartered accountants, of Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB has been appointed as the Company's external auditor.

The duties of the Auditor

Deloitte LLP reviews and expresses an independent opinion on the financial statements of the Company.

The fees payable to the Auditor by the Company

The fees charged by the Auditor are agreed in advance based on an estimate of the time to be spent by the Auditors on the affairs of the Company. The Auditor's fees amounted to £27,000 (plus VAT) in respect of the year ended 31 December 2020.

The Registrar

The Registrar is Link Asset Services Limited based at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

The duties of the Registrar

The Registrar maintains the share register of the Company and is responsible for dividend payments. All administrative enquiries concerning shareholdings, dividend payments, change of address or lost certificates should be addressed to the Company's Registrar – www.signalshares.com

The fees payable to the Registrar by the Company

The fees payable to the Registrar are calculated as, *inter alia*, a multiple of the number of shareholders admitted to the register each year plus a number of share transfers made each year.

Delegation of functions by the AIFM

The AIFM has not delegated any of its functions to any other companies.

The Company Secretary

The Company Secretary is Aberforth Partners LLP.

The duties of the Company Secretary

The Company Secretary is responsible for dealing with all administrative matters, regulatory filings and notifications on behalf of the Board and the Company.

The fees payable to the Company Secretary

The Company pays a secretarial fee, quarterly in advance, which amounted to £89,500 (excluding VAT) during 2020. The secretarial fee is adjusted annually in line with the Retail Prices Index and is subject to VAT, which is currently irrecoverable by the Company.

SHAREHOLDER INFORMATION

Annual Reports and Accounts

Copies of the Company's latest Annual and Interim Reports are available on the AIFM's website at www.aberforth.co.uk.

Publication of net asset values

The latest net asset value of the Company may be accessed on the AIFM's website at www.aberforth.co.uk.

Valuation Policy

The assets of the Company are valued in accordance with UK generally accepted accounting practice and the AIC's Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts. In summary, investments are valued at their fair value, which, for quoted investments is typically represented by the quoted bid price. Any unquoted investments are valued at the Board's estimate of fair value.

Further detail of the bases of valuation of the Company's assets and its accounting for investments are included in the most recent Annual Report of the Company which is available on the AIFM's website at www.aberforth.co.uk.

Historical performance of the Company

Details of the Company's historical financial performance are provided in the Company's Annual Reports and Accounts and Monthly Factsheets, which are available via the AIFM's website at www.aberforth.co.uk.

Investors should note that past performance of the Company is not necessarily indicative of future performance. Capital may be at risk as the value of investments may go down as well as up and is not guaranteed; therefore investors may not get back the amount originally invested.

There can be no guarantee that the investment objective of the Company will be achieved or provide the returns sought by the Company or its investors.

Purchases and sales of shares by investors

The Company's shares are admitted to trading on the main market of the London Stock Exchange where they may be purchased or sold.

New shares may not currently be issued by the Company. The Company's shares are not redeemable. While the Company will typically have shareholder authority to buy back shares, shareholders do not have the right to have their shares purchased by the Company.

Fair treatment of investors

The legal and regulatory regime to which the AIFM, the Company and the Directors are subject to ensures the fair treatment of investors. The Listing Rules require that the Company treats all shareholders of the same class of shares equally.

In particular, the Directors have certain statutory duties under the Companies Act 2006 with which they must comply. These include a duty upon each Director to act in the way she or he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

No investor has a right to obtain preferential treatment in relation to their investment in the Company and the Company does not give preferential treatment to any investors.

The Ordinary Shares rank equally with each other.

RISK FACTORS

The risk factors referred to below are the risks which are currently considered by the AIFM and the Company to be material, but they are not the only risk factors relating to the Company or its shares. Additional risks and uncertainties relating to the Company or its shares that are not currently known to the AIFM or the Company or that the AIFM or the Company do not currently consider to be material may also have a material adverse effect on the Company. Potential investors in the Company's shares should review these risk factors carefully and consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

- (i) **Investment policy/performance risk** – the Company's portfolio is exposed to share price movements due to the nature of its investment policy and strategy. The performance of the investment portfolio will typically differ from the performance of the benchmark and will be influenced by market related risks including market price and liquidity. The Board's aim is to achieve the investment objective over the long term by ensuring the investment portfolio is managed appropriately. The Board has outsourced portfolio management to experienced managers with a clearly defined investment philosophy and investment process. The Board receives regular and detailed reports on investment performance including detailed portfolio analysis, risk profile and attribution analysis.

Senior representatives of Aberforth Partners attend each Board meeting. Peer group performance is also regularly monitored by the Board.

- (ii) **Market risk** – investment performance is impacted by a number of market risk factors, including uncertainty about future price movements of investments. The Managers regularly assess the exposure to market risk when making investment decisions and the Board monitors the results of the investment process with the Managers. The Board and Managers closely monitor economic and political developments and, in particular, are mindful of the continuing uncertainty following the departure of the UK from the EU, the ongoing impact of the Covid-19 pandemic and government responses, the potential effects of climate change and other geopolitical issues referred to in the Managers' Report contained in the 2020 Annual Report.
- (iii) **Share price discount** – investment trust shares tend to trade at discounts to their underlying net asset values. The Board and the Managers monitor the discount on a daily basis both in absolute terms and relative to ASCoT's peers. The Board intends to continue to use the share buy-back facility.
- (iv) **Gearing risk** – in rising markets, gearing will enhance returns; however, in falling markets the gearing effect will adversely affect returns to Shareholders. The Board and the Managers consider the gearing strategy and associated risk on a regular basis.
- (v) **Reputational risk** – the reputation of the Company is important in maintaining the confidence of shareholders. The Board and the Managers monitor external factors outwith the Company's control affecting the reputation of the Company and/or the key service providers and take action if appropriate.
- (vi) **Regulatory risk** – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company losing investment trust status and, as a consequence, any capital gains would then be subject to capital gains tax. The Board also receives quarterly reports from the Secretaries regarding compliance with rules and regulations, together with information on future developments.
- (vii) **Covid-19 virus** – In the context of market price risk, please note the exceptional circumstances arising from the Covid-19 pandemic and the responses to it. These have profoundly affected macro-economic activity, the operations of companies around the world and their stock market valuations. The universe of UK small quoted companies market invested in by the Company, has seen a significant fall in its aggregate valuation and dividends due to the uncertainties arising from the spread of this virus. The Board and AIFM are closely monitoring market developments as the impact of the pandemic progresses. The Company outsources all the main operational activities to recognised, well established firms. Since the Covid-19 pandemic, these firms have deployed alternative operational practices, including staff working remotely, to ensure continued business service.

RISK MANAGEMENT

Risk profile

Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies. The Company has a diversified portfolio. In addition, the Company has a simple capital structure, invests only in small UK quoted companies and outsources all the main operational activities to recognised, well-established firms.

The Company will periodically disclose information regarding its current risk profile to investors on its website and in its Annual Report and Accounts available to investors.

Risk management systems

The AIFM and the Company have established an on-going process for identifying, evaluating and managing the principal risks faced by the Company.

The principal risks identified by the AIFM and the Company are summarised in the Company's Annual Report and Accounts together with an explanation of the approach taken in managing these risks. Copies of the Annual Report and Accounts can be obtained on the AIFM's website at www.aberforth.co.uk.

Liquidity risk management

The AIFM has a liquidity management policy in relation to the Company which is intended to ensure that the Company's investment portfolio maintains a level of liquidity which is appropriate to the Company's obligations. This policy involves an assessment by the AIFM of portfolio construction including individual stock weightings, index dispersion and the impact of target trades. This analysis takes into account the sensitivity of particular assets to particular market risks and other relevant factors.

Shares in the Company are not redeemable and shareholders do not have the right to require their shares to be purchased by the Company. Accordingly, the liquidity management policy ensures that the Company's investment portfolio is sufficiently liquid to meet the following principal obligations:

- the Company's operating and financing expenses: in practice, these expenses are typically covered by dividends received from the Company's investments; and
- the possible need to repay borrowings at short notice, which would require to be met by the sale of assets.

The liquidity management policy requires the AIFM to identify and monitor its investment in assets which are considered to be relatively illiquid. All of the Company's investment portfolio is invested

in securities of companies listed on the London Stock Exchange. The liquidity of the holdings is monitored on an ongoing basis to ensure that the portfolio is adequately diversified.

The liquidity management policy is reviewed and updated, as required, on at least an annual basis.

Investors will be notified, by way of a disclosure on the AIFM's website and in the Company's Interim and Annual Reports, in the event of any material changes being made to the liquidity management systems and procedures or where any new arrangements for managing the Company's liquidity are introduced.

Professional negligence liability risks

In addition to maintaining sufficient own funds at an appropriate level, the AIFM also maintains professional indemnity insurance with a reputable insurer for a reasonable amount having regard to its responsibilities as the AIFM to the Company.

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