



Aberforth Smaller Companies Trust plc

Annual Report and Financial Statements

31 December 2019

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in Aberforth Smaller Companies Trust plc, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive (AIFMD) requires certain information to be made available to investors prior to their investment in the shares of the Company. The Company's Investor Disclosure Document, which is available for viewing at www.aberforth.co.uk, contains details of the Company's investment objective, policy and strategy, together with leverage and risk policies.

Strategic Report

The Board is pleased to present the Strategic Report on pages 1 to 19 which incorporates the Chairman's Statement and Managers' Report. It has been prepared by the Directors in accordance with Section 414 of the Companies Act 2006, as amended.

Investment Objective

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) 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.

The Company has appointed Aberforth Partners LLP as the investment managers ("the Managers"). Further information can be found on page 21.

Total Return Performance

Year to 31 December 2019	%
Net Asset Value per Ordinary Share ²	26.9
Numis Smaller Companies Index (excluding Investment Companies)	25.2
Ordinary Share Price ²	39.8

Financial Highlights

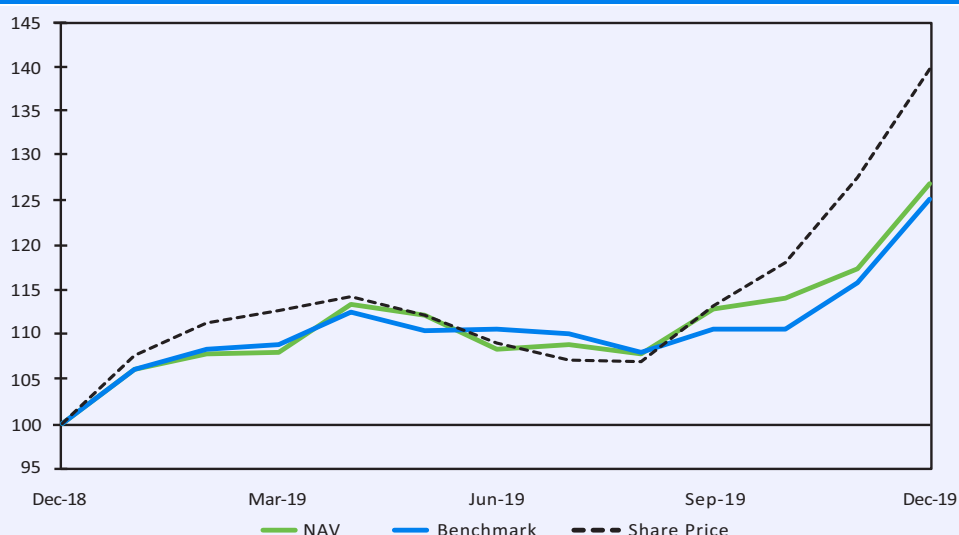
	31 December 2019	31 December 2018	% Change
Shareholders' Funds ¹	£1,406m	£1,154m	21.8
Market Capitalisation ²	£1,379m	£1,031m	33.8
Actual Gearing employed ¹	0.8%	1.3%	n/a
Ordinary Share net asset value ¹	1,570.15p	1,273.72p	23.3
Ordinary Share price ²	1,540.00p	1,138.00p	35.3
Ordinary Share discount ²	1.9%	10.7%	n/a
Revenue Return per Ordinary Share ¹	42.26p	45.30p	-6.7
Dividends per Ordinary Share (excluding special dividends) ¹	32.00p	30.25p	5.8
Dividends per Ordinary Share (including special dividends) ¹	36.00p	38.00p	-5.3
Return attributable to equity shareholders per Ordinary Share ¹	332.22p	-235.92p	n/a
Ongoing Charges ²	0.77%	0.79%	n/a
Portfolio Turnover ²	23.8%	26.0%	n/a

¹ UK GAAP Measure ² Alternative Performance Measure (refer to glossary on page 59)

Source: Aberforth Partners LLP

Absolute Performance over past year

(figures are total returns and have been rebased to 100 at 31 December 2018)



Chairman's Statement

Review of 2019 performance

2019 proved to be a stellar year for global stockmarkets. Trade wars, politics and slowing economic activity, as referred to in my interim report, ran afoul of the old Wall Street adage that bull markets climb a wall of worry.

After a period on the side-lines, the UK stockmarket did participate in the bull run, though it took the fourth quarter's General Election for investors to reassess UK assets in a broader sense. In particular, small UK quoted companies, in which the Company invests, were significant beneficiaries of this reappraisal.

For the full year, the FTSE 100 Index's total return was 17.3% and that of the FTSE All-Share Index, which is heavily weighted towards large companies, was 19.2%. The Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) is the Company's benchmark. It gave a total return of 25.2%, almost half of which came in the fourth quarter of the year. The Company's net asset value total return was 26.9%. This encapsulates the Income Statement's return attributable to equity Shareholders of 332.22p per share (2018: -235.92p), together with the effect of dividends received and re-invested. The share price generated a total return of 39.8% as the discount narrowed towards the end of the year.

The Managers' Report provides more detail on 2019's performance and puts it into the context of the three-year continuation vote period.

Dividends

The Board remains committed to a progressive dividend policy. In this context, the Board is pleased to propose a final ordinary dividend of 22.0p per share. Total ordinary dividends of 32.0p per share for 2019 represent a 5.8% increment when compared with 2018.

Since 2015, the Company has paid a special dividend alongside the ordinary dividend, thereby ensuring that the all-important minimum retention test imposed by HMRC is not breached. The Board adopted such a strategy to avoid the pitfalls of allowing non-recurring revenue streams, such as special dividends received from investee companies, to become embedded into the progressive dividend policy.

Accordingly, the Board has declared a special dividend of 4.0p per share alongside the total ordinary dividend of 32.0p per share.

After adjusting for both the final ordinary and special dividends, the Company's revenue reserves will be 76.1p per share, circa 2.4x the ordinary dividend. Strengthened revenue reserves, and prudent management of the non-recurring revenue streams of recent years, leave the Board optimistic about the sustainability of the progressive dividend policy. The ambition behind this strategy, and perhaps its acid test, will be for the Board to deliver dividend growth through the next downturn.

I would stress that the base level for the Company's progressive dividend policy is the ordinary dividend, i.e. 32.0p per share which excludes the special dividend.

Continuation vote

It is the Company's policy to hold a continuation vote every three years. The Annual General Meeting on 3 March 2020 will see the ninth such vote in its history. The Board views the continuation vote as an important shareholder right and would once again encourage all Shareholders to exercise it.

The backdrop to the ninth continuation vote is a little unusual. The Company's investment strategy, at the core of which is the Managers' value investment philosophy, faced further challenges in the three years to 31 December 2019. It is pleasing, therefore, to be reporting on a three year period in which returns were ahead of the benchmark. It is important for the Board to understand the influences on such outcomes. In reaching its recommendation, the Board is comfortable that the value style can recover from its struggles since the financial crisis and that recent performance has been achieved without deviation from that style.

For its recommendation in this upcoming continuation vote, the Board is able to draw on favourable performance data for both the short term record over three years and the long term record over twenty nine years. However, as anyone familiar with the stockmarket knows, and as previous continuation votes highlight, the stars are not always aligned and, particularly when an investment strategy is pursued with discipline, short term performance can disappoint.

The Board therefore seeks to understand other aspects of the Managers' culture and process that ought to support favourable long term returns, irrespective of short term noise. The partnership structure, the consistent collegiate approach, the level of resource focused on a single asset class, alongside the self-imposed ceiling on assets managed and the meaningful alignment through their shareholdings in the Company have been ever-present since the Company's formation in 1990. Although difficult to quantify, the Board believes that each facet has contributed to building the impressive investment record and has allowed the Managers to manage succession from its founders without some of the pitfalls seen elsewhere in the industry.

The Board therefore recommends that Shareholders vote in favour of the Company's continuation.

Chairman's Statement

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 29 year history. The £125m facility with The Royal Bank of Scotland International has a term expiring in June 2020. As has been the case in the past, the facility term dovetails with the three-yearly continuation vote cycle. After the Annual General Meeting, and providing the continuation vote is duly passed, the Board and the Managers would seek to put in place a new facility which would continue to provide the Company with access to liquidity for investment purposes and to fund share buy-backs as and when appropriate. In an at times volatile and less liquid asset class such as small UK quoted companies, having access to immediate funds through a credit facility provides the Managers with enhanced flexibility. During the year, the level of gearing ranged from nil to 2.6%, with an average of 0.7%, and at the year end gearing stood at 0.8% of Total Shareholders' Funds.

Share buy-back

At the Annual General Meeting in February 2019, the authority to buy back up to 14.99% of the Company's Ordinary Shares was approved. During the year, 1,047,245 Ordinary Shares (1.2% of the issued share capital) were bought in at a total cost of £12.6m. Consistent with the Board's stated policy, those Ordinary Shares have been cancelled rather than held in Treasury. The Board continues to believe that, at the margin, buy-backs provide an increase in liquidity for those Shareholders wishing to crystallise their investment and at the same time deliver an economic uplift for those Shareholders wishing to remain invested with the Company. Once again, the Board will be seeking to renew the buy-back authority at the Annual General Meeting on 3 March 2020.

Outlook

In what is my first annual Chairman's statement, it is pleasing to report on a period of strong absolute returns and, despite challenges to the value investment style, out-performance of the benchmark. Honeymoons do not last forever and more difficult statements lie ahead – as all good stockmarket historians know, the wall of worry has a top.

Some aspects of Brexit are undoubtedly clearer following the General Election in December 2019, but challenges remain as the complex legal and commercial work of agreeing and implementing the UK's exit from the EU gets under way. For ASCoT, as an investment company, the operational implications of Brexit's next stages are limited. These next stages are, though, more relevant at the investment level, as the underlying investee companies are affected, to varying degrees, by the adjustment to the new environment.

Nevertheless, there is considerably more clarity today on Brexit than seemed possible even six months ago. This contributed to a much better experience for the value style in the second half of the year. While this could not offset the headwinds of the first half, or indeed of the full continuation vote period, it serves as a useful reminder of how rapidly the mood of the stockmarket can change. There appears ample scope for a further improvement in the value style's fortunes to judge by the extremity of the portfolio's relative valuation, with the historical price earnings ratio of 10.0x one third lower than the benchmark's 14.9x. However, in the years since the financial crisis, value rallies have so far proved to be pauses rather than sustainable reversals. Time will tell if that proves to be the case regarding the second half of 2019.

As the Company moves into its thirtieth year, it has enjoyed a period of strong gains, despite which the portfolio's valuation remains compelling, as explained in the Managers' Report. This, together with the decisive election result, gives grounds for optimism, and the ever-present features of the Managers' offering provide the Board with further confidence.

Finally, the Board very much welcomes the views of Shareholders and is available to talk to you directly. My email address is noted below.

Richard Davidson

Chairman

29 January 2020

richard.davidson@aberforth.co.uk

Investment Policy and Strategy

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 2020 (the date of the last annual index rebalancing), the index included 346 companies, with an aggregate market capitalisation of £153 billion. Its upper market capitalisation limit was £1.6 billion, although this limit changes owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities 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 either where 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 invests no more than 15% of total assets in other listed closed-ended investment funds.

The Managers aim to keep the Company near fully invested in equities at all times and there is normally no attempt to engage in market timing by holding high levels of liquidity. The Company may employ gearing. The Board, in conjunction with the Managers, is responsible for determining the parameters for gearing. When considered appropriate, gearing is used tactically 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. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

Investment Strategy

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 Company's holdings are usually on more attractive valuations than the average for the NSCI (XIC). 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. 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 typically 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 benchmark index. Therefore, within the diversification parameters described in Investment Policy, the Managers regularly review the level of differentiation, with the aim of maximising the active share ratio of the portfolio.

Dividend Policy

The Board confirms its commitment to a policy of progressive dividends. In addition, in order to qualify as an investment trust, the Company must not retain more than 15% of its income from any financial year. The Company pays an interim dividend in August each year based on the forecast net revenue position for the current financial year. A final dividend, subject to shareholder approval, is then paid in March each year based on the actual net income for the financial year just ended and the future earnings forecasts.

Directors' Duty to Promote the Success of the Company

The Directors have a duty to promote the success of the Company for the benefit of Shareholders as a whole and to describe how they have performed this duty having regard to matters set out in section 172(1) of the Companies Act 2006. In fulfilling this duty, the Directors consider the likely consequences of their actions over the long term and on other stakeholders.

As an externally managed investment company, the Company does not have employees. Its main stakeholders therefore comprise its Shareholders, who are also its customers, and a small number of suppliers. These suppliers are external firms engaged by the Board to provide, amongst others, investment management, secretarial, depositary, custodial and banking services. The principal relationship is with the Managers and page 21 contains further information. Their investment management services are fundamental to the long term success of the Company through the pursuit of the investment objective. The Board regularly monitors the Company's investment performance in relation to its objective and also to its investment policy and strategy. It seeks to maintain a constructive working relationship with the Managers and on an annual basis reviews their continuing appointment to ensure it is in the best long term interests of Shareholders. The Board receives and reviews detailed presentations and reports from the Managers and other suppliers to enable the Directors to exercise effective oversight of the Company's activities. Further information on the Board's review process is set out in the Corporate Governance Report. The Managers seek to maintain constructive relationships with the Company's other suppliers on behalf of the Company, typically through regular communications, provision of relevant information and update meetings.

To help the Board in its aim to act fairly as between the Company's members, it encourages communications with all Shareholders. The Annual and Interim reports are issued to Shareholders and are available on the Managers' website together with other relevant information including monthly factsheets. The Managers offer to meet the larger Shareholders twice a year to provide detailed reports on the progress of the Company and receive feedback which is provided to the Board. Directors are also available to meet with Shareholders during the year and at the AGM. Shareholders' views are considered as part of the Board's regular strategy reviews. Shareholders have the opportunity to validate the Board's strategy through a triennial vote on the continuation of the Company and the Board encourages Shareholders to participate in this vote.

In seeking to enhance value for Shareholders over the long term, the Board has also established guidelines to allow the Managers to deploy gearing on a tactical basis when opportunities arise and to implement share buy-backs. In addition, the Board remains committed to a progressive dividend policy, as reflected in the dividends announced for the year.

As described in more detail within the Corporate Governance Report, the Board is committed to maintaining and demonstrating high standards of corporate governance in relation to the Company's business conduct.

The Board also expects good standards at the companies within which the Company is invested. In this regard, it is satisfied that the Managers consistently and proactively engage with investee companies on environmental, social and governance matters, where these are material to the investment case and therefore to the long term success of the Company. Investments are not excluded from the portfolio based on these matters alone as a broader range of factors is used for evaluation. Where environmental, social and governance matters impinge upon the investment case, the Managers engage with investee companies to encourage the issues to be addressed. The Managers are well placed to undertake this activity, which has always been a fully integrated element of their investment process. Their investment team is well resourced and, collectively, has a deep knowledge and understanding of small UK quoted companies, derived from many years of interaction and fundamental research. The Managers' long history of investing in small UK quoted companies and their willingness to take significant stakes in investee companies can also be helpful in their engagement with investee company boards. Further detail on the Managers' stewardship policy is available from the literature library section of the Managers' website, at www.aberforth.co.uk.

In summary, the Board's primary focus in promoting the long term success of the Company for the benefit of its Shareholders as a whole is to direct the Company with a view to achieving the investment objective in a manner consistent with its stated investment policy and strategy. In doing so, and as described above, it has due regard to the impact of its actions on other stakeholders and the wider community.

Principal Risks

The Board carefully considers risks, including emerging risks, faced by the Company and seeks to manage these risks through continual review, evaluation, mitigating controls and taking action as necessary.

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 risks inherent in diversified portfolios of small and large companies. In addition, the Company has a simple capital structure and outsources all the main operational activities to recognised, well-established firms. The Board receives internal control reports from these firms to review the effectiveness of their control frameworks.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below. Further information regarding the review process can be found in the Corporate Governance and Audit Committee Reports.

- (i) **Investment policy/performance risk** – the Company’s portfolio is exposed to share price movements owing to the nature of its investment policy and strategy. The performance of the investment portfolio typically differs from the performance of the benchmark and is influenced by stock selection and market related risks including market price and liquidity (refer to Note 19 for further details). *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. The Board and Managers closely monitor economic and political developments and, in particular, are mindful of the continuing uncertainty following the UK referendum result to leave the EU and other geopolitical issues referred to in the Managers’ Report.*
- (ii) **Share price discount** – investment trust shares tend to trade at discounts to their underlying net asset values but a significant share price discount, or related volatility, could reduce shareholder returns and confidence. *The Board and the Managers monitor the discount on a daily basis both in absolute terms and relative to ASCoT’s peers. In this context, the Board intends to continue to use the buy-back authority as described in the Directors’ Report.*
- (iii) **Gearing risk** – in rising markets, gearing enhances returns; however, in falling markets the gearing effect adversely affects returns to Shareholders. *The Board and the Managers consider the gearing strategy and associated risk on a regular basis.*
- (iv) **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.*
- (v) **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 receives quarterly compliance reports from the Secretaries to evidence compliance with rules and regulations, together with information on future developments.*

Viability Statement

The Directors have assessed the viability of the Company over the five years to December 2024, taking account of the Company’s position, its investment strategy, and the potential impact of the relevant principal risks detailed above. Based on this assessment, the Directors have a reasonable expectation that the Company will meet its liabilities as they fall due and be able to continue in operation, notwithstanding that the Company’s shareholders are to vote on the continuation of the Company on 3 March 2020 and again in 2023.

In making this assessment, the Directors took comfort from the results of a series of stress tests 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 Company invests in companies listed and traded on the London Stock Exchange. These shares are actively traded and, whilst less liquid than larger quoted companies, the portfolio is well diversified by both number of holdings and industry sector. The Directors determined that a five year period to December 2024 is an appropriate period for which to provide this statement given the Company’s long term investment objective, the simplicity of the business model, the resilience demonstrated by the stress testing and the relatively low working capital requirements.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objective against key performance indicators (also referred to as Alternative Performance Measures): net asset value total return; share price total return; relative performance; and share price discount to net asset value. Information on the Company's performance is provided in the Chairman's Statement and Managers' Report and a record of these measures is shown below. In addition to the above, the Board considers the share price discount against its investment trust peer group. A glossary of these Alternative Performance Measures can be found on page 59.

Historical Total Returns

Period	Discrete Annual Returns (%)		
	NAV	Index	Share Price
1 year to 31 December 2019	26.9	25.2	39.8
1 year to 31 December 2018	-15.4	-15.3	-11.8
1 year to 31 December 2017	22.1	19.5	22.6
1 year to 31 December 2016	5.8	11.1	-4.2
1 year to 31 December 2015	10.2	10.6	13.9
1 year to 31 December 2014	-0.7	-1.9	0.1
1 year to 31 December 2013	52.4	36.9	62.0
1 year to 31 December 2012	31.9	29.9	43.9
1 year to 31 December 2011	-13.5	-9.1	-18.5
1 year to 31 December 2010	26.6	28.5	22.8

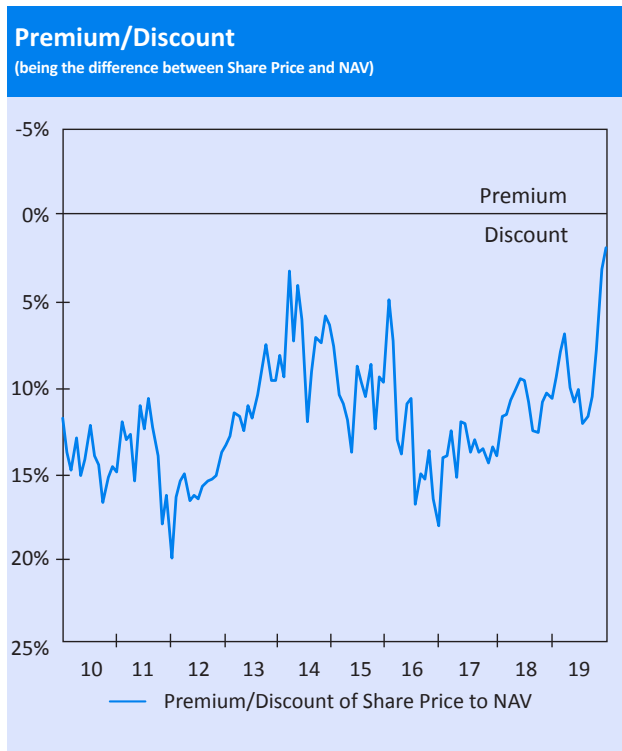
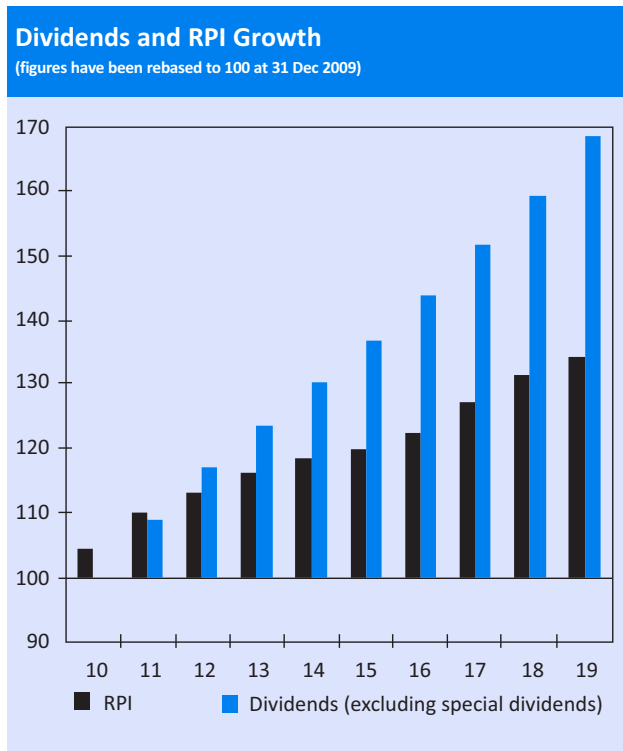
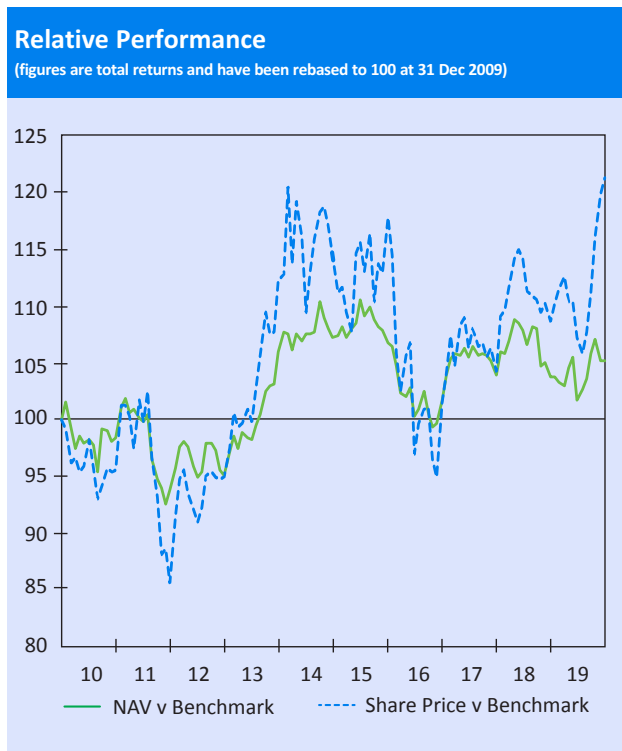
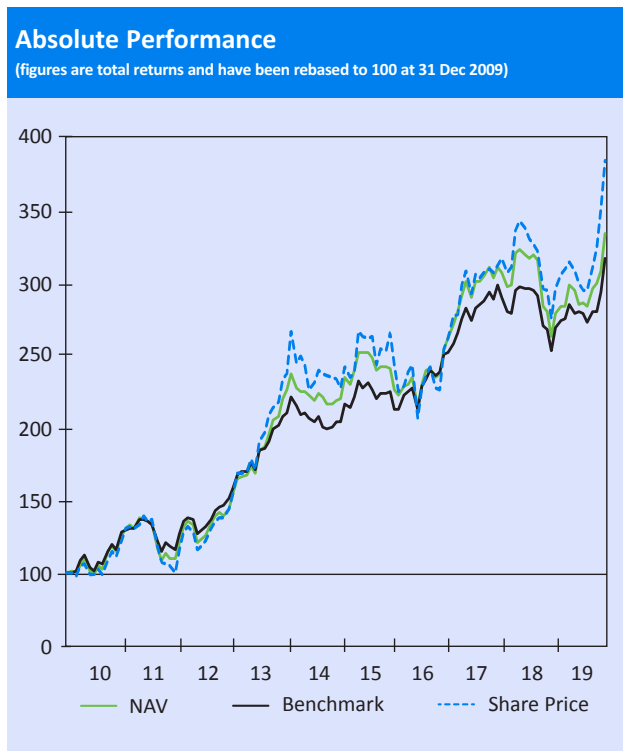
Periods to 31 December 2019	Annualised Returns (%)			Cumulative Returns (%)		
	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2017	3.6	2.9	11.0	7.3	6.0	23.3
3 years from 31 December 2016	9.4	8.2	14.8	31.0	26.6	51.2
4 years from 31 December 2015	8.5	8.9	9.7	38.6	40.7	44.8
5 years from 31 December 2014	8.8	9.2	10.5	52.8	55.6	64.9
6 years from 31 December 2013	7.2	7.3	8.7	51.7	52.7	65.0
7 years from 31 December 2012	12.7	11.1	15.1	131.2	109.1	167.3
8 years from 31 December 2011	15.0	13.3	18.3	204.9	171.7	284.6
9 years from 31 December 2010	11.4	10.6	13.5	163.8	146.9	213.6
10 years from 31 December 2009	12.8	12.2	14.4	234.0	217.2	285.1
15 years from 31 December 2004	9.9	10.6	10.5	311.4	352.4	350.0
20 years from 31 December 1999	11.1	8.7	11.9	717.5	427.2	851.8
29.1 years from inception on 10 December 1990	13.2	10.9	13.2	3,545.0	1,901.1	3,569.6

Ten Year Summary

As at 31 December	Net asset Value per Share p	Share Price p	Discount %	Revenue per Ordinary Share p	Dividends per Ordinary Share net p	Ongoing Charges %	Gearing %
2019	1,570.2	1,540.00	1.9	42.26	36.00	0.77	0.8
2018	1,273.7	1,138.00	10.7	45.30	38.00	0.79	1.3
2017	1,543.7	1,326.00	14.1	41.59	35.50	0.76	0.3
2016	1,292.6	1,109.00	14.2	36.93	30.10	0.80	2.7
2015	1,254.3	1,193.00	4.9	35.03	28.75	0.79	0.3
2014	1,161.4	1,072.00	7.7	27.24	24.75	0.82	2.8
2013	1,193.2	1,095.00	6.7	27.37	23.50	0.79	2.6
2012	802.8	695.50	13.4	26.07	22.25	0.81	5.9
2011	627.3	501.00	20.1	24.13	20.75	0.88	11.1
2010	743.8	632.50	15.0	18.11	19.00	0.85	7.3
2009	605.9	534.00	11.9	17.35	19.00	0.85	7.7

Performance Indicators

Ten Year Investment Summary



Managers' Report

Introduction

ASCoT's net asset value total return in 2019 was 26.9%. This was ahead of the NSCI (XIC)'s 25.2% return and the FTSE All-Share's 19.2%. The year just ended was also the final year in ASCoT's latest three-yearly continuation vote cycle. This was a volatile period for equity markets, but the overall performance in this three year period was acceptable, as the table below demonstrates.

Total returns	2017	2018	2019	Full period
ASCoT NAV	+22.1%	-15.4%	+26.9%	+31.0%
NSCI (XIC)	+19.5%	-15.3%	+25.2%	+26.6%
FTSE All-Share	+13.1%	-9.5%	+19.2%	+22.0%
FTSE All-World (US\$ terms)	+24.7%	-9.0%	+27.2%	+44.3%

The volatility of share prices over the three years was influenced by global macro economic and political developments. In 2017, markets were enthused by the prospect of "synchronised global recovery", though this optimism proved short-lived, as Donald Trump's trade wars intensified towards the end of 2018. Into 2019, fears of a tariff-induced slowdown were allayed by widespread monetary stimulus, with the Federal Reserve cutting interest rates and further quantitative easing deployed by the European Central Bank. These swings in sentiment were echoed by government bond yields: US ten year yields, which started 2017 at 2.5%, reached almost 3.5% in 2018, before sinking back below 2.0% at the end of 2019.

The UK economy has not been unaffected by these global moves, but their effects have been overshadowed by the all-consuming issue of Brexit. In the face of gnawing uncertainty about the eventual terms of the UK's divorce from the EU, the economy proved more resilient than might have been expected. However, the steady – if unspectacular – progress since the referendum masks an undoubted opportunity cost, some of which is reflected in the under-performance of UK equities against other stockmarkets as illustrated in the table above. As 2019 drew on, it was notable that the incidence of profit warnings from small UK quoted companies rose – it would seem that uncertainty related to Brexit is catching up with businesses reliant on the domestic economy, while the trade wars are taking their toll on companies more reliant on overseas markets. Nevertheless, the year ended in an encouraging fashion, with apparent progress towards a trade deal between China and the US, alongside a decisive general election result in the UK promising to bring clarity at least to the first stage of the Brexit process.

The influence of the value style on performance

Relative total returns	2017	2018	2019	Full period
Value <i>less</i> growth	-9.6%	-1.4%	-8.1%	-21.5%

Source: London Business School

The Managers are value investors. This means that ASCoT's net asset value performance is influenced by the performance of the value style, for better or worse. Data from the London Business School allow analysis of the value factor's performance within the NSCI (XIC). Since ASCoT's inception in 1990, the index's value stocks have out-performed its growth stocks by 1.5% per annum; that premium rises to 3.2% over the NSCI (XIC)'s full 64 year history. Adherence to the value style has therefore been beneficial to ASCoT's returns over its lifetime. However, the growth style has led the way since the financial crisis. As the table above shows, this pre-eminence was evident over the continuation vote period as a whole and in 2019 specifically. ASCoT's out-performance of the NSCI (XIC) therefore came without help from the style factor – "one against the head" in rugby parlance. There was, though, a noteworthy improvement in value's fortunes in the second half of 2019 after the particularly poor start to the year noted in the interim report.

There is a relationship between style performance and the low bond yields that have characterised the years since the financial crisis. These low yields, all else being equal, drag down the discount rates used to value other assets. This is of greater benefit to the valuations of those assets whose cash flows are weighted further into the future. In the equity world, such assets are growth stocks. This reasoning tallies with observable trends in the real world: investment horizons have lengthened, cash consumptive business models have succeeded in attracting enormous quantities of capital and many equity portfolios are littered with attempts, quoted or unquoted, to find the next Amazon or Apple. Meanwhile, less glamorous businesses, which are usually sensitive to the economic cycle, are overlooked – their proven ability to weather downturns and to benefit from economic progress is presently much less prized than a disruptive business model that promises growing profits some years in the future.

Managers' Report

The Managers' dedication to value investing has resulted in two features of the portfolio that have been and will continue to be influential on future returns: a significant exposure to the smaller constituents of the NSCI (XIC) and a bias towards companies reliant on the domestic economy. The table below shows the performance of these size and geographical influences within the NSCI (XIC), while the subsequent paragraphs give more detail on each.

Relative total returns	2017	2018	2019	Full period
Smaller smalls less larger smalls*	-2.6%	+1.4%	-13.1%	-13.9%
Domestics less overseas	-12.8%	-8.4%	+8.3%	-18.3%

*FTSE SmallCap (XIC) - FTSE 250 (XIC)

- Constituents of the NSCI (XIC) are those stocks within the bottom 10% of the total UK stockmarket by value. This definition means that the market capitalisation of the largest constituent is £1,632m and that the index has a significant overlap with the FTSE 250. Mid caps – or “larger small” companies – represent 61% of the total value of the NSCI (XIC), but just 35% of ASCoT's portfolio. ASCoT therefore has a relatively high exposure to the NSCI (XIC)'s “smaller small” companies, most of which FTSE includes in its SmallCap and Fledgling indices.

	“Smaller smalls”	“Larger smalls”
ASCoT's exposure	65%	35%
NSCI (XIC) exposure	39%	61%
Tracked universe EV/EBITA* 2019	9.6x	11.3x
Tracked universe profit growth 2019-2021	12.6%	9.6%

*EV = Enterprise value; EBITA = earnings before interest, tax and amortisation

The table above demonstrates the reason for ASCoT's size positioning: “smaller small” companies are both cheaper than their larger peers and are expected to grow more quickly. This is an unusual state of affairs, the most significant reason for which is a general reluctance to assume liquidity risk. The much lower valuations for “smaller smalls” have been evident since the financial crisis, which heightened concern about illiquidity. That concern was further intensified in 2019 by the unfortunate events at Woodford Investment Management and their knock-on effect on other parts of the investment management industry. These developments ensured that the share prices of “smaller small” companies lagged the NSCI (XIC) as a whole in 2019 and over the continuation vote period, which was disadvantageous to ASCoT's returns. As a consequence of this under-performance, the size discount widened further in the year and valuations of many “smaller small” companies approached distressed levels. This represents opportunity for a closed-ended fund such as ASCoT, though the Managers' enthusiasm may be tempered by the regulatory reaction to what has come to pass.

- The EU referendum created a further dislocation within the valuation framework of small UK quoted companies, which have a much greater exposure than do large companies to the domestic economy. The share prices of overseas-facing companies out-performed as sterling weakened and boosted their profits through translation gains. Meanwhile, many domestic-facing businesses faced narrowing margins as they had to pay higher sterling prices for goods sourced from outside the UK. ASCoT's portfolio was well positioned for this divergence, having a relatively high exposure to the overseas component at the time of the referendum. However, the subsequent relative performance of the two components led to more opportunities among the domestics. Portfolio capital therefore flowed from overseas to domestic companies, such that ASCoT's exposure to the latter at 31 December was 63%, determined by the underlying revenues of the companies. The NSCI (XIC)'s domestic exposure fell to 54% following the annual rebalancing of the index on 1 January. This reflects the rally in share prices of domestic companies towards the end of the year, following which several became too large for continued membership of the NSCI (XIC).

The portfolio's shift towards domestics was a function of the Managers' value investment discipline and has been modestly advantageous to returns both in 2019 and the continuation vote period: since the end of the third quarter of 2018, the share prices of domestic companies have performed more strongly than those of their overseas peers. This reflects both the impact of the trade wars on the prospects of the overseas earners and, since the emergence of Boris Johnson's Brexit deal, building optimism – demonstrated by sterling strength – that a disorderly divorce will be avoided. It should be noted, though, that the nature of the UK's future relationship with the EU will take time to define and consequently that Brexit risk has not vanished: the trading conditions of small UK quoted companies, particularly those addressing the domestic economy, remain vulnerable to a badly handled Brexit.

Managers' Report

These aspects of portfolio positioning – size and geographical exposure – are consequences of the Managers' adherence to the value investment philosophy. However, unlike that philosophy, they may not be constant features of ASCoT's portfolio. Over time, basic economic forces will mean that these specific opportunities are arbitrated away. In the case of the geographical bias, the obvious catalyst for such arbitrage is greater clarity on the Brexit process, in which the recent general election result should be helpful. Resolution of the size opportunity may be more distant: while the market will take care of overhangs in individual stocks, the full reaction to Woodford Investment Management's problems – not least in terms of regulation – has yet to play out. However, it is worth noting that Brexit clarity may encourage more M&A activity within the smaller companies universe. Indeed, with ASCoT receiving bids for five of its holdings in 2019, there was a pick-up in takeovers of NSCI (XIC) constituents in 2019, albeit from a low base: predators were prepared to look through currency risk to the very low underlying valuations. An important caveat is that the standard takeover premium of around 30% may be insufficient for the Managers, given the particularly low valuations of "smaller small" companies.

The day-job – stock selection and portfolio management

Performance for the 12 months ended 31 December 2019	Basis points
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 22 basis points)	188
Movement in mid to bid price spread	15
Cash/gearing	39
Purchase of ordinary shares	14
Management fee	-77
Other expenses	-6
Total attribution based on bid prices	173

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 26.90%; Benchmark Index = 25.17%; difference is 1.73% being 173 basis points).

The previous section focused on the effect of the value investment style on ASCoT's investment performance in recent years. While the impact of style can be significant – for better over ASCoT's history though for worse in recent years – the Managers cannot influence it. Where they do have influence and where their daily efforts are concentrated are stock selection and the moulding of stocks into a portfolio. The process underlying these activities has been consistently applied over ASCoT's 29 year history. There are three main aspects to the process.

- Company analysis is facilitated by splitting the small cap universe by sector: each investment manager looks after a handful of sectors and is charged with identifying opportunities within these. With six or seven experienced investment managers in recent years and 346 companies in total to analyse, the level of resource directed at the investment universe is very high. The investment manager seeks to understand how a company makes its money, its barriers to entry, its vulnerabilities, ESG factors material to valuation, the motivation of its executives and the oversight provided by the chair and non executive directors. Scrutiny of historical results and regular contact with management are important features of the analytical effort. Using the output of the analysis, the investment manager determines a valuation for the company in question. A variety of methodologies and metrics – most commonly the ratio of enterprise value to earnings before interest, tax and amortisation – is utilised, all with the aim of calculating a target price for each stock.
- While analysis is conducted by the individual investment managers within their allocated sectors, buy and sell decisions and portfolio management are a collegiate effort. For a value investor, this part of the process is at one level very straightforward: the aim is to move capital from companies whose share prices are close to their targets into those at a wide discount. The Managers refer to this circulation of capital as the "value roll", which can be a powerful contributor to the investment returns generated by a value manager. The key is to ensure that the valuation determined for each company is close to being correct, more often than not. This is the focus of scrutiny and debate when the investment managers gather for investment meetings.
- The third noteworthy aspect of the process is engagement with the chair and other directors of investee companies, through face-to-face meetings and voting in general meetings, something that ASCoT has done throughout its 29 year history. The value of regular engagement becomes especially clear when investment cases go awry. All companies disappoint their investors' expectations at some point. The stockmarket's reaction to such events can be harsh and, in the Managers' experience, is usually over-done in the short term. The Managers are therefore inclined to view a profit

Managers' Report

warning as an opportunity to own more of a company at a better price. Additional purchases are not, however, undertaken blindly: the Managers engage with directors if poor governance or capital allocation have contributed to the company's misstep. The odds of effecting change are improved if Aberforth's funds collectively own a significant stake – up to 25% in some limited cases – in a company's issued share capital. While the Managers actively seek to improve investment outcomes through their engagement, they always do so discreetly.

These three features of how the Managers invest have been constantly applied throughout ASCoT's history. Underpinning the ability to remain true to a process that has proved itself over 29 years is the ownership structure of Aberforth: the business is entirely owned by partners working at the firm. There are no outside shareholders who might encourage a dilution of the value investment style, through exploration of other equity markets or pursuit of an asset-gathering strategy. This would risk being against the interests of investors in existing funds managed by Aberforth. Indeed, the Managers remain committed to a ceiling on the business's assets under management, specifically 1.5% of the total market capitalisation of the NSCI (XIC) index. The ability to avoid distractions has a beneficial side-effect: it increases the Managers' confidence to invest in ASCoT to the extent that each has a meaningful personal holding.

The Managers' consistent investment process, designed to identify and own under-valued small companies, has been thoroughly tested in recent years by the challenges facing the value investment style. These challenges can be so intense that portfolio returns lag those of the NSCI (XIC). However, the process can sometimes overcome these challenges, as was the case in 2019 and, indeed, over the continuation vote period as a whole.

Other portfolio features

The Managers' investment process gives rise to several noteworthy portfolio characteristics. These are often consequences of the value investment style, two of which – the portfolio's present biases to “smaller small” companies and to domestically oriented businesses – have already been described. The following paragraphs describe and explain other relevant characteristics.

Turnover

In 2019, portfolio turnover – as defined in the glossary – was 24%. Over the three years of the continuation vote period, it was slightly higher at 26%. These rates of turnover are lower than ASCoT's long run average of 33%. A return to higher turnover would probably be good news for ASCoT's investors. This counterintuitive assertion has its explanation in the Managers' value investment style. If the stockmarket has little interest in ASCoT's holdings, they are unlikely to see their share prices rise towards the Managers' price targets. There is therefore no reason for holdings to be sold. On the other hand, were the stockmarket to be seeking out value stocks – typically those domestically oriented “smaller smalls” – the Managers would be inclined to take profits and reinvest the proceeds into still under-valued businesses. This “value roll” would imply good relative returns for ASCoT. The Managers do not, therefore, focus on turnover rates, which are an output of the investment process. Moreover, the average three year holding period implied by a long run turnover rate of 33% masks a more nuanced underlying picture. Of ASCoT's ten most successful stocks in the continuation vote period, four were held for fewer than three years, while another three were held for more than twelve years. Thus, the Managers are patient and take a long term view – it is just that the stockmarket can be shorter term and offer opportunities to recycle capital more quickly.

Attractive income characteristics

Addressing small UK quoted companies from a value investment perspective tends to bring income advantages, which support the dividend ambition described by the Chairman in his report. First, the NSCI (XIC), whose largest constituent is just over 1% of the index, offers a much more diversified income profile than does the FTSE All-Share, where a handful of high yielding stocks and sectors generate a disproportionate amount of that index's income. Second, dividend cover is considerably higher in the small cap world: the NSCI (XIC)'s cover at 31 December 2019 was 2.1x, which compares with 1.6x for the FTSE All-Share and with 2.9x for ASCoT's portfolio. Superior dividend cover, all else being equal, should improve the chances of higher dividend growth. Third, historical evidence suggests that small companies' dividend growth is higher: since 1955 the growth rate for constituents of the NSCI has been circa 3% per annum in real terms, against just over 1% for large companies. The fourth advantage is more specific to ASCoT: the Managers' value investment style tends to result in a portfolio with a higher yield than that of the NSCI (XIC) as a whole. At 31 December 2019, ASCoT's average portfolio yield was 3.4%, which is higher than the benchmark's 3.2%.

A couple of caveats are necessary. First, real dividend growth from the NSCI (XIC) since 2010 has been over 8% per annum, significantly higher than the 3% long term average and therefore unsustainable. There were signs in 2018 that the underlying rate of progress was moderating and this trend was also evident in 2019. Nevertheless, growth last year was positive and exceeded inflation, despite the economic pressures besetting both domestic and overseas companies.

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The second caveat relates to the comments made earlier in this report about very low government bond yields and their implications for investor behaviour in other asset classes. Low bond yields have contributed to “income starvation”, which has encouraged investors to look to other assets to plug the gap. Corporate bonds and infrastructure have benefited, as too have equities. The search for yield has resulted in a general lowering of yields across stockmarkets and in the valuations of certain companies being determined more by their yields than by other valuation metrics. As a result of this, the Managers have found yield to be a less reliable indicator of value in recent years and there have been points, albeit not presently, at which ASCoT's average portfolio yield has been lower than that of the NSCI (XIC).

Low valuations

Other valuation metrics are less ambiguous and ASCoT's portfolio enjoys the low valuation ratios that one would expect of a portfolio put together by a value investor. The most extreme metric at present is the historical PE ratio. This for ASCoT's portfolio was 10.0x at 31 December 2019, against 14.9x for the NSCI (XIC). The portfolio's year end discount of 33% was the widest in ASCoT's history and compares with a 29 year average of 11%. The wide discount is in effect the culmination of the portfolio's differentiated positioning in terms of size and geographical exposure described previously in this report.

Portfolio Characteristics	31 December 2019		31 December 2018	
	ASCoT	NSCI (XIC)	ASCoT	NSCI (XIC)
Number of companies	80	346	81	359
Weighted average market capitalisation	£672m	£883m	£524m	£732m
Price earnings (PE) ratio (historic)	10.0x	14.9x	9.6x	10.9x
Dividend yield (historic)	3.4%	3.2%	3.7%	3.6%
Dividend cover	2.9x	2.1x	2.9x	2.6x

Moving from a historical metric to forward valuations on the Managers' preferred ratio, the table below sets out the EV/EBITA numbers for ASCoT and for the “tracked universe”, which is 98% by value of the NSCI (XIC) and is made up of those 267 small caps that the Managers follow most closely. The table also shows data for two subsets of the “tracked universe”, a collection of 47 growth stocks and the other 220 stocks. It is from this latter group that ASCoT's portfolio is usually constructed.

EV/EBITA	2019	2020	2021
ASCoT's portfolio	10.1x	9.5x	8.5x
Tracked universe	11.7x	11.0x	9.7x
- Growth stocks	19.2x	16.3x	13.5x
- The rest	10.6x	10.1x	8.9x

On the basis of data within the 2020 column, the tracked universe is 17% more expensive than ASCoT's portfolio, while the subset of growth stocks is on a 72% EV/EBITA premium to the portfolio. While macro economic pressures meant that 2019 was a year of little profit progression within the NSCI (XIC), the ratios above imply a return to growth in 2020 and 2021. The profit estimates underlying this are the Managers' own and assume that the further stages of Brexit process are not disorderly and that recession for this, or any other, reason is avoided. The lack of profit growth in 2019 across the small cap universe is consistent with an upsurge in profit warnings since the half year, as the Brexit uncertainty since the referendum eventually took its toll and as the trade wars affected the fortunes of overseas facing businesses. It is notable that, for the first time in perhaps ten years, these profit warnings were often greeted by flat or rising share prices. The stockmarket would thus seem to have anticipated bad news, as imminent clarity on the political outlook acted as the catalyst for a change in sentiment towards these companies.

High active share

While ASCoT's turnover, income profile and portfolio valuation are directly a result of the Managers' value investment style, active share is distinct. Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a better chance of performing differently from the index, for better or worse. The Managers target a ratio of at least 70% for ASCoT in relation to the NSCI (XIC) and at the start of January 2020 the ratio was 78%. Active share can be flattered by holding companies that are not constituents of the

Managers' Report

comparable index. The Managers believe that it is important for investors to know in what part of the stockmarket ASCoT is invested and accordingly there are only limited circumstances in which the portfolio can hold companies that are not in the NSCI (XIC).

Conclusion & Outlook

Experience should overcome surprise, but what a difference a year can make! As 2018 drew to a close, pessimism reigned as trade wars clouded the global outlook and the Brexit process was mired in uncertainty. Twelve months on, higher equity markets attest to a rediscovered optimism. The received wisdom is now that Donald Trump will act in a rational fashion to conclude a “great” deal with the Chinese as he enters the election year. At home, one of the extreme political outcomes has been avoided and the expectation in the immediate aftermath of the election was that Boris Johnson, now free of the Brexit hardliners, would use his majority to cultivate a softer form of Brexit. However, events quickly highlighted the risk of such assumptions, as the government sought to make it legally impossible to prolong the transition period beyond December 2020. With a hard Brexit still therefore on the table, sterling and UK equities have been given pause for thought.

The point here is less about the further twists and turns of share prices on the road to the UK's eventual relationship with the EU, or indeed to the US's eventual relationship with China – stockmarket gyrations of this sort are inevitable. It is more about the problems of an investment climate in which politics in general and the whims of individual politicians have so great an influence. Faith in the capabilities or good intentions of politicians is no substitute for a system in which the state plays a defined and understood role – whether American or Scandinavian in its reach – and lets other participants in the economy conduct their affairs accordingly. It may be argued that today's situation is effectively normality, with the exception being the “great moderation” of the two decades or so before the financial crisis. Either way, it might not be unreasonable to expect today's political uncertainty to be reflected in greater scepticism about the promises made by governments and in the valuations of assets particularly reliant on these promises. And yet, even as fiscal spending seems set to rise, vast swathes of even long-dated government bonds yield close to zero, which allows investment horizons to be generously extended to support the valuations of speculative growth companies.

ASCoT stands in sharp contrast to the boldness implicit in such valuations, with the portfolio's value metrics more attractive than their 29 year historical averages both in absolute terms and relative to the NSCI (XIC). The opportunity has arisen because of the general reluctance since the financial crisis to embrace economic cyclicality and stockmarket illiquidity. However, as the closing months of 2019 showed, sentiment can turn quickly, while the tentative pick-up in M&A points to how some of the valuation anomalies will be rectified. The timing of such events is impossible to call, so in the meantime the Managers continue to follow their investment process designed to identify attractive investment opportunities, funding positions in these with capital from mature holdings and thus moulding a diversified portfolio of attractively valued smaller companies. That process has worked over ASCoT's first 29 years and, as the continuation vote period demonstrates, can on occasion overcome extremely hostile conditions for the value investor.

Guided by the Managers' value investment philosophy, ASCoT is distinguished from the overwhelming majority of small cap investment trusts and open-ended funds, which are reliant on the continued ascendancy of growth stocks. This differentiation ensures the relevance of ASCoT's proposition and underpins the Managers' optimism for investment performance in the years ahead.

Aberforth Partners LLP
Managers
29 January 2020

Thirty Largest Investments

As at 31 December 2019

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	Urban&Civic	51,564	3.7	Property – investment & development
2	FirstGroup	44,563	3.2	Bus & rail operator
3	Brewin Dolphin Holdings	43,165	3.1	Private client fund manager
4	Mitchells & Butlers	38,139	2.7	Operator of restaurants, pubs & bars
5	Future	37,707	2.7	Special interest consumer publisher
6	Keller	34,792	2.5	Ground engineering services
7	Rank Group	34,672	2.5	Multi-channel gaming operator
8	Reach	34,043	2.4	UK newspaper publisher
9	Morgan Advanced Materials	34,004	2.4	Manufacture of carbon & ceramic materials
10	Forterra	33,176	2.4	Manufacture of bricks
Top Ten Investments		385,825	27.6	
11	Wincanton	33,108	2.4	Logistics
12	SDL	32,130	2.3	Software – translation & content management
13	TI Fluid Systems	29,354	2.1	Automotive parts manufacturer
14	Vitec Group	28,626	2.0	Photographic & broadcast accessories
15	Robert Walters	27,621	2.0	Recruitment
16	Eurocell	27,241	1.9	Manufacture of UPVC building products
17	Huntsworth	27,060	1.9	Public relations
18	Just Group	26,448	1.9	Individually underwritten annuities
19	McKay Securities	25,843	1.8	Property – London & South East offices
20	International Personal Finance	25,665	1.8	Home credit provider
Top Twenty Investments		668,921	47.7	
21	RPS Group	25,441	1.8	Energy & environmental consulting
22	Bakkavor Group	25,280	1.8	Food manufacturer
23	Grainger	25,237	1.8	Property – residential rentals
24	Essentra	24,911	1.8	Filters & packaging products
25	Restaurant Group	24,865	1.8	Restaurant operator
26	RM	24,781	1.8	IT services for schools
27	TT Electronics	24,686	1.8	Sensors & other electronic components
28	Vesuvius	24,228	1.7	Metal flow engineering
29	Northgate	24,007	1.7	Van rental
30	Speedy Hire	23,619	1.7	Plant hire
Top Thirty Investments		915,976	65.4	
	Other Investments (50)	500,702	35.4	
Total Investments		1,416,678	100.8	
	Net Liabilities	(10,878)	(0.8)	
Total Net Assets		1,405,800	100.0	

Investment Portfolio

As at 31 December 2019

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC) ²
Oil & Gas Producers	50,978	3.6	4.3
EnQuest	23,590	1.7	
Nostrum Oil & Gas	1,950	0.1	
Pharos Energy plc	4,814	0.3	
Premier Oil	20,624	1.5	
Oil Equipment, Services & Distribution	2,662	0.2	1.7
Gulf Marine Services	2,662	0.2	
Chemicals	–	–	2.2
Industrial Metals & Mining	–	–	0.6
International Ferro Metals ¹	–	–	
Mining	33,374	2.4	2.7
Anglo Pacific Group	22,639	1.6	
Capital Drilling	5,157	0.4	
Gem Diamonds	5,578	0.4	
Construction & Materials	95,209	6.8	4.4
Eurocell	27,241	1.9	
Forterra	33,176	2.4	
Keller	34,792	2.5	
Aerospace & Defence	37,859	2.7	2.3
Senior	19,760	1.4	
Ultra Electronics Holdings	18,099	1.3	
General Industrials	30,446	2.1	1.8
Low & Bonar	6,218	0.4	
Vesuvius	24,228	1.7	
Electronic & Electrical Equipment	68,087	4.8	2.4
Dialight	5,691	0.3	
Morgan Advanced Materials	34,004	2.4	
TT Electronics	24,686	1.8	
XAAR	3,706	0.3	
Industrial Engineering	43,712	3.1	1.9
Castings	15,086	1.1	
Vitec Group	28,626	2.0	
Industrial Transportation	33,108	2.4	2.3
Wincanton	33,108	2.4	
Support Services	166,946	11.9	8.2
Connect Group	8,486	0.6	
De La Rue	9,654	0.7	
Essentra	24,911	1.7	
Management Consulting Group	2,252	0.2	
Northgate	24,007	1.7	
Robert Walters	27,621	2.0	
RPS Group	25,441	1.8	
SIG	20,955	1.5	
Speedy Hire	23,619	1.7	
Automobiles & Parts	29,354	2.1	1.6
TI Fluid Systems	29,354	2.1	
Beverages	–	–	1.5
Food Producers	36,295	2.6	2.7
Bakkavor Group	25,280	1.8	
Devro	6,823	0.5	
R.E.A. Holdings	4,192	0.3	

Investment Portfolio

As at 31 December 2019

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC) ²
Household Goods & Home Construction	13,318	1.0	2.6
Headlam Group	13,318	1.0	
Leisure Goods	–	–	0.2
Personal Goods	–	–	1.6
Health Care Equipment & Services	4,089	0.3	1.2
Medica Group	2,428	0.2	
Spire Healthcare Group	1,661	0.1	
Pharmaceuticals & Biotechnology	20,406	1.5	1.5
Vectura Group	20,406	1.5	
Food & Drug Retailers	3,626	0.3	0.0
McColl's Retail Group	3,626	0.3	
General Retailers	81,264	5.8	4.9
Card Factory	8,655	0.6	
Carpetright	1,484	0.1	
DFS Furniture	23,482	1.8	
Halfords Group	11,194	0.8	
Lookers	10,126	0.7	
N Brown Group	16,082	1.1	
Topps Tiles	10,241	0.7	
Media	128,612	9.1	6.0
Centaur Media	5,568	0.4	
Future	37,707	2.7	
Huntsworth	27,060	1.9	
Reach	34,043	2.4	
STV Group	1,895	0.1	
Wilmington Group	22,339	1.6	
Travel & Leisure	180,198	12.8	10.5
Air Partner	3,694	0.2	
FirstGroup	44,563	3.2	
Go-Ahead Group	12,389	0.8	
Hostelworld Group	5,636	0.4	
Mitchells & Butlers	38,139	2.7	
Rank Group	34,672	2.5	
Restaurant Group	24,865	1.8	
Stagecoach Group	16,241	1.2	
Fixed Line Telecommunications	4,470	0.3	1.8
Zegona Communications	4,470	0.3	
Mobile Telecommunications	–	–	1.0
Electricity	–	–	1.8
Banks	–	–	1.7
Nonlife Insurance	–	–	2.3
Life Insurance	29,918	2.1	0.9
Hansard Global	3,469	0.2	
Just Group	26,448	1.9	
Real Estate Investment & Services	98,098	7.0	5.9
Grainger	25,237	1.8	
U and I Group	21,297	1.5	
Urban&Civic	51,564	3.7	
Real Estate Investment Trusts	36,601	2.6	2.5
Capital & Regional	2,902	0.2	
Hansteen Holdings	7,857	0.6	
McKay Securities	25,843	1.8	

Investment Portfolio

As at 31 December 2019

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC) ²
Financial Services	118,560	8.4	8.9
Amigo Holdings	10,365	0.6	
Brewin Dolphin Holdings	43,165	3.1	
Charles Stanley Group	13,407	1.0	
CMC Markets	17,715	1.3	
International Personal Finance	25,665	1.8	
Non-Standard Finance	8,243	0.6	
Software & Computer Services	69,488	4.9	3.0
Alfa Financial Software Holdings	12,576	0.8	
RM	24,781	1.8	
SDL	32,130	2.3	
Technology Hardware & Equipment	–	–	1.1
Investments as shown in the Balance Sheet	1,416,678	100.8	100.0
Net Liabilities	(10,878)	(0.8)	
Total Net Assets	1,405,800	100.0	100.0

¹ Listing cancelled.

² Reflects the rebalanced index as at 1 January 2020.

Summary of Material Investment Transactions

For the year ended 31 December 2019

Purchases	Cost £'000	Sales	Proceeds £'000
Vesuvius	21,977	Dunelm Group	42,678
Bakkavor Group	16,342	Spirent Communications	40,358
Bovis Homes Group	13,324	Future	37,286
Premier Oil	13,054	Ei Group	34,587
Senior	10,614	KCOM Group	22,393
Amigo Holdings	10,221	Ultra Electronics Holdings	22,284
Card Factory	9,402	Grainger	16,817
Rank Group	9,163	Bovis Homes Group	16,386
Morgan Advanced Materials	8,208	Go-Ahead Group	15,697
SIG	8,162	Lancashire Holdings	13,608
Reach	7,858	Mitchells & Butlers	13,298
Just Group	7,740	FirstGroup	8,075
Lookers	7,436	RM	5,010
Alfa Financial Software Holdings	7,067	Menzies (John)	4,652
Devro	6,992	Sabre Insurance Group	3,891
Wilmington Group	5,875	EnQuest	3,550
Halfords Group	5,854	Capital & Regional	3,154
International Personal Finance	5,847	Restaurant Group	3,109
De La Rue	5,776	Carclo	2,267
Hostelworld Group	5,740	Vitec Group	2,018
Other Purchases	113,916	Other Sales	8,178
Total Purchases (incl. transaction costs)	300,568	Total Sale Proceeds (incl. transaction costs)	319,296

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	← 31 December 2018 →			Net Purchases/ (Sales) ¹ £'000	Net Appreciation/ (Depreciation) £'000	← 31 December 2019 →		
	NSCI (XIC) Weight %	Portfolio Weight %	Portfolio Valuation £'000			Portfolio Valuation £'000	Portfolio Weight %	NSCI (XIC) Weight %
Oil & Gas	4	4	47,982	14,592	(8,934)	53,640	4	6
Basic Materials	7	3	35,207	(848)	(985)	33,374	2	5
Industrials	21	31	361,871	66,852	46,644	475,367	34	23
Consumer Goods	11	3	36,903	24,129	17,935	78,967	6	10
Health Care	3	1	12,635	8,091	3,769	24,495	2	3
Consumer Services	21	28	326,286	(88,187)	155,601	393,700	27	22
Telecommunications	2	1	9,694	(14,456)	9,232	4,470	–	3
Utilities	1	–	–	–	–	–	–	2
Financials	25	22	257,636	7,897	17,644	283,177	20	22
Technology	5	7	79,951	(36,798)	26,335	69,488	5	4
	100	100	1,168,165	(18,728)	267,241	1,416,678	100	100

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2018				31 December 2019			
	← No. of Companies →	Portfolio Valuation £'000	Weight %	NSCI (XIC) Weight %	← No. of Companies →	Portfolio Valuation £'000	Weight %	NSCI (XIC) ² Weight %
FTSE 100	–	–	–	–	–	–	–	–
FTSE 250	23	427,876	36	59	19	520,641	37	66
FTSE SmallCap	39	534,823	46	32	41	717,479	51	28
FTSE Fledgling	8	28,795	3	1	11	40,352	3	1
Other	11	176,671	15	8	9	138,206	9	5
	81	1,168,165	100	100	80	1,416,678	100	100

¹ Includes transaction costs.

² This reflects the rebalanced index as at 1 January 2020.

Other Information

Company Status

The Company is a closed-ended investment trust listed on the London Stock Exchange and an Alternative Investment Fund under the Alternative Investment Fund Managers (AIFM) Directive. The Company has been approved by HM Revenue & Customs as an investment trust for accounting periods commencing on or after 1 January 2013 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an investment trust. Furthermore, the Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006.

Board Diversity

The Board's policy for the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds. The policy is always to seek to appoint the best person for the job. The Board actively promotes equality and fairness for all and there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability. The overriding aim of the policy is to seek to ensure that the Board is composed of the best combination of people to promote the success of the Company for Shareholders over the long term. The current Directors have a range of relevant business, financial and asset management skills and experience. Brief biographical details of the members of the Board are shown on page 20.

Environmental, Human Rights, Employee, Social and Community Issues

The requirement to detail information about environmental matters, human rights, social and community issues does not apply to the Company as it has no employees, all Directors are non-executive and it has outsourced its functions to third party service providers. The Company's and the Managers' approach to environmental, social and governance matters is set out within the Corporate Governance Report on page 28.

The Strategic Report, contained on pages 1 to 19, has been approved by the Board of Directors on 29 January 2020 and signed on its behalf by:

Richard Davidson,
Chairman

Governance Report

Board of Directors

Richard Davidson, Chairman

Appointed: 26 January 2019

Shareholding in the Company: 20,350 Ordinary Shares

Richard is Chair of Miton Global Opportunities plc. He is also Chair of the University of Edinburgh's Investment Committee as well as being a Trustee of its pension scheme. Formerly, he was a Partner and Manager of the Macro Fund at Lansdowne Partners. Prior to that, he was a Managing Director and No.1 ranked investment strategist at Morgan Stanley, where he worked for 15 years. Since 2003, Richard has also been heavily involved in forestry investment and management.

Julia Le Blan

Appointed: 29 January 2014 and chairs the Audit Committee

Shareholding in the Company: 3,000 Ordinary Shares

Julia is a chartered accountant and has worked in the financial services industry for over 30 years. She was formerly a tax partner at Deloitte and expert on the taxation of investment trust companies. She sat for two terms on the AIC's technical committee and is also a director of The Biotech Growth Trust plc, BMO UK High Income Trust plc, Impax Environmental Markets plc and JP Morgan US Smaller Companies Investment Trust plc.

Paula Hay-Plumb

Appointed: 29 January 2014 and is a member of the Audit Committee

Shareholding in the Company: 2,600 Ordinary Shares

Paula is a chartered accountant and an experienced director with a wealth of finance and governance expertise in both the private and public sectors. Her previous roles include Corporate Finance and Group Reporting Director at Marks and Spencer plc, Chairman of the National Australia Group Common Investment Fund and non-executive board member of Skipton Building Society and the National Audit Office. Paula is currently a non-executive board member of The Crown Estate, Hyde Housing Association and Oxford University Hospitals NHS Foundation Trust and a Trustee of Calthorpe Estates.

Richard Rae

Appointed: 26 January 2012 and is a member of the Audit Committee

Shareholding in the Company: 4,000 Ordinary Shares

Richard qualified as a chartered accountant with KPMG and joined Hoare Govett as an investment analyst in 1987. He spent 22 years working in investment research and equities management, latterly as a Managing Director, responsible for smaller companies, in the Global Equities division of ABN AMRO. Since 2009, he has established himself as an independent management consultant providing corporate advice to both listed and unlisted companies. He is also a director of Maistro plc.

Martin Warner

Appointed: 1 March 2018

Shareholding in the Company: 7,000 Ordinary Shares

Martin co-founded Michelmersh Brick Holdings plc in 1997 and served as Chief Executive and subsequently non-executive Chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors and is Chairman of the Brick Development Association.

Directors' Report

The Directors submit their Annual Report and Financial Statements for the year ended 31 December 2019.

Directors

The Directors of the Company during the financial year are listed on page 33. Further information about the Board 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 custodial activities of the Company.

Objective, Investment Policy, Investment Strategy, Dividend Policy and Risks

These are explained fully in the Strategic Report.

Return and Dividends

The total return attributable to shareholders for the year ended 31 December 2019 amounted to a profit of £299,510,000 (2018: loss of £215,871,000). The net asset value per Ordinary Share at 31 December 2019 was 1,570.15p (2018: 1,273.72p).

Your Board is pleased to declare a final dividend of 22.00p and a special dividend of 4.00p (total of £23,278,000), which produces total dividends for the year of 36.00p (total of £32,287,000). The final and special dividends, subject to Shareholder approval, will be paid on 6 March 2020 to Shareholders on the register at the close of business on 7 February 2020.

Investment Managers

Aberforth Partners LLP (the firm, Managers or Aberforth) act as Alternative Investment Fund Manager and Secretaries to the Company. The business was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies and deployed in accordance with a value investment philosophy.

At 31 December 2019, funds under management were £2.4 billion, of which 70% was represented by investment trusts, 9% by a unit trust and 21% by segregated charity funds. All these funds are managed in line with the value philosophy applied to the Company's portfolio. The Managers believe that diseconomies of scale come with managing too much money within an asset class such as small UK quoted companies. Accordingly, they impose a ceiling on funds under management, which in normal circumstances would be equivalent to 1.5% of the total market capitalisation of the NSCI (XIC) benchmark. Consistent with this, current capacity is circa £150 million of funds under management.

The firm is wholly owned by seven partners. Six are investment managers, with the investment team completed by one other who is not currently a partner. Analytical responsibilities are divided by stockmarket sector among the investment managers, but investment decisions and portfolio management are undertaken on a collegiate basis by the full team. The investment managers are remunerated on the basis of the success of the firm and its funds as a whole. Alignment with Company's Shareholders is further enhanced by the team's meaningful investments in the Company's equity.

These services can be terminated by either party at any time by giving six months' notice of termination. Compensation would be payable in respect of this six month period only if termination were to occur sooner. Aberforth receives an annual management fee, payable quarterly in advance, equal to 0.75% of the net assets up to £1 billion, and 0.65% thereafter. The management fee amounted to £8,869,000 in the year ended 31 December 2019 (2018: £10,072,000).

The secretarial fee amounted to £87,569 (excluding VAT) during 2019 (2018: £84,862, excluding VAT). It is adjusted annually in line with the Retail Prices Index and is subject to VAT, which is currently irrecoverable by the Company.

The Board reviews the Company's investment management and secretarial arrangements on an on-going basis and formally at its October meeting, where each Director completes a Managers' Evaluation questionnaire. The Board then considers the results of the questionnaire and discusses the following matters, amongst others, in its review:

- investment performance in relation to the investment objective, policy and strategy;
- the continuity and quality of personnel managing the assets;
- the level of the management fee;
- the quality of reporting to the Board;
- the alignment of interests between the Managers and the Company's Shareholders;
- the administrative services provided by the Secretaries; and
- the level of satisfaction of major Shareholders with the Managers.

Following the most recent review, the Board was of the opinion that the continued appointment of Aberforth as investment managers, on the terms agreed, remains in the best interests of Shareholders.

Directors' Report

Depositary

NatWest Trustee & Depositary Services Limited carry out the duties of Depositary as specified in the Alternative Investment Fund Managers (AIFM) Directive in relation to the Company, including:

- holding or controlling all assets of the Company that 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 acts in the best interests of the Shareholders of the Company. The Depositary is contractually liable to the Company for the loss of any securities entrusted to it. The Depositary 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 Trustee & Depositary Services Limited receive an annual fee, payable quarterly in arrears, of 0.0085% 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 be removed from office when a new Depositary is appointed by the Company.

Capital Structure and Share Buy-Backs

At 31 December 2019, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 89,533,066 were issued and fully paid. During the year, 1,047,245 shares (1.2% of the Company's issued share capital with a nominal value of £10,472) were bought back and cancelled at a total cost of £12,622,000. No shares are held in treasury. Share buy-backs may succeed in narrowing the discount between the Company's share price and net asset value per share (NAV) or in limiting its volatility, but their influence is inevitably subject to broader stockmarket conditions. Irrespective of their effect on the discount, buy-backs at the margin provide an increase in liquidity for those Shareholders seeking to crystallise their investment and at the same time deliver an economic uplift for those Shareholders wishing to remain invested in the Company. Accordingly, it is the intention to continue to use the share purchase facility within guidelines established from time to time by the Board.

Continuation of the Company

The Company has no fixed duration. However, in accordance with the Company's Articles of Association, Shareholders are asked every three years to vote on the continuation of the Company and an ordinary resolution will be proposed at the Annual General Meeting to be held on 3 March 2020. Further details on the backdrop of the continuation vote are included in the Chairman's Statement on page 2, along with the Directors' recommendation.

If such resolution is not passed, the Directors will prepare and submit to shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If such proposals are not approved, shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up. On a winding-up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of Ordinary Shares and distributed, pro rata, among such holders.

Going Concern

The Audit Committee has undertaken and documented an assessment of whether the Company is a going concern. The Committee reported the results of its assessment to the Board.

The Company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development and performance are set out in the Strategic Report. In addition, the Annual Report includes the Company's objectives, policies and processes for managing its capital and financial risk, along with details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities and funding flexibility can typically be achieved through the use of the bank debt facility. The Company has adequate financial resources to enable it to meet its day-to-day working capital requirements. The Directors are recommending that shareholders vote in favour of the Company's continuation.

In summary and 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.

Voting Rights of Shareholders

At shareholder meetings and on a show of hands, every shareholder present in person or by proxy has one vote. On a poll, every shareholder present in person has one vote for each share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed.

Directors' Report

The Board is pleased to offer electronic proxy voting, including CREST voting capabilities. Further details can be found in the Notice of the AGM.

Notifiable Share Interests

The Board has received notifications of the following interests in the voting rights of the Company as at 31 December 2019 and 29 January 2020. The total number of voting rights amounted to 89,533,066 at each of these dates.

Notified interests	Percentage of Voting Rights Held
Brewin Dolphin Limited	10.0%
Investec Wealth & Investment Limited	8.8%
Rathbone Brothers plc	5.9%

Annual General Meeting

The AGM will be held on 3 March 2020 at 2.30 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM.

Purchase of Own Shares (Special Resolution)

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the AGM. Resolution 13, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2021. The price paid for shares will not be less than the nominal value of 1p per share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. This authority, if conferred, will be used as described on page 22 and only if to do so would be in the best interests of Shareholders generally. Any shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options or warrants to subscribe for equity shares in the capital of the Company.

Directors' Recommendation

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.

Additional information in respect 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 22 and 23.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on pages 25 and 26.
- Amendment of the Company's Articles of Association and powers to issue shares on a non pre-emptive basis or buy back the Company's shares requires 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; 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.

Greenhouse Gas Emissions

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

Directors' Report

Bribery Act 2010

The Company does not tolerate bribery and is committed to carrying out business fairly, honestly and openly. Aberforth Partners LLP, the Company's Investment Managers, have confirmed that anti-bribery policies and procedures are in place and they do not tolerate bribery.

Modern Slavery Statement

The Company is not within scope of the Modern Slavery Act 2015 because it has no or insufficient turnover and is not obliged to make a human trafficking statement.

Criminal Finances Act 2017

The Company does not tolerate the criminal facilitation of tax evasion.

Post Balance Sheet Events

Since 31 December 2019, there are no post balance sheet events which would require adjustment of or disclosure in the financial statements.

Independent Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

Disclosure of Information to Auditor

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 Auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information.

Future Developments

The future success of the Company is dependent primarily on the performance of its investments. 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 strategy and policy.

Approved and authorised for issue by the Board of Directors

Richard Davidson

Chairman

29 January 2020

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and provisions of the 2019 Association of Investment Companies Code of Corporate Governance (the AIC Code). The AIC Code addresses all the principles and provisions set out in the UK Corporate Governance Code which applies for the year ended 31 December 2019, as well as setting out additional principles and provisions on issues that are of specific relevance to investment trusts. The Board considers that reporting in accordance with the principles and provisions of the AIC Code provides more relevant and comprehensive information to shareholders. The AIC Code is available on the AIC website at www.theaic.co.uk. This report forms part of the Directors' Report on pages 21 to 24.

Compliance

Throughout the year ended 31 December 2019 the Company complied with the recommendations of the AIC 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 the Chair of the Audit Committee fulfils this role when necessary, for example in taking the lead in the annual evaluation of the Chairman.

The UK Corporate Governance 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 Code, 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.

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. At 31 December 2019, the Board comprised five non-executive Directors, of whom Richard Davidson is Chairman. A formal schedule of matters reserved for decision by the Board has been adopted. The Board has engaged external firms to provide investment management, secretarial, depository and custodial services. 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. All Directors are presently considered to be independent. All Directors retire at the AGM each year and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of their engagement as a non-executive Director, copies of which are available on request and at the AGM.

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 at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance compared with its benchmark index. The Directors also review several important areas including:

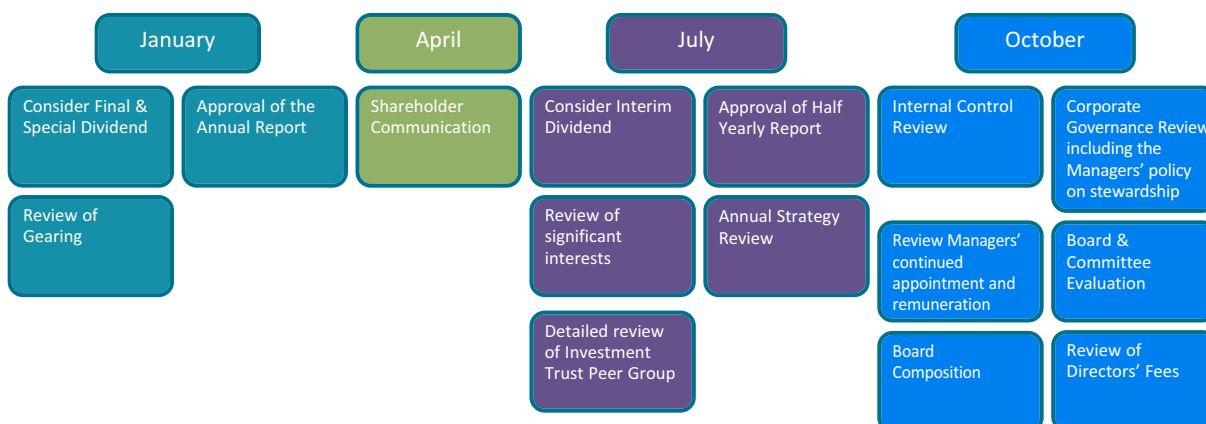
- the stockmarket environment;
- the Company's investment activity over the quarter relative to its investment policy;
- performance in relation to comparable investment trusts and open-ended funds;
- the revenue account, balance sheet and gearing position;
- share price discount (both absolute levels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

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

Corporate Governance Report

Annual Plan

The following highlights various additional matters considered by the Board during the past year:



The following table sets out the Directors of the Company during the financial year, together with the number of Board and Committee meetings held and the number of meetings attended by each Director (whilst a Director or Committee member).

Director	Board		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Richard Davidson, Chairman (appointed 26 January 2019)	4	4	–	–
Paul Trickett (retired 28 February 2019)	1	1	–	–
Paula Hay-Plumb	5	5	3	2
Julia Le Blan	5	5	3	3
Richard Rae	5	5	3	3
Martin Warner	5	5	–	–

There has been no change to the Directors between 31 December 2019 and 29 January 2020.

Appointments to the Board

The Board regularly reviews its composition, having regard to the Board's structure and to the present and future needs of the Company. The Board takes into account its diversity, the balance of expertise and skills brought by individual Directors, and length of service, where continuity and experience can add significantly to the strength of the Board. The Board has not yet set diversity targets but its diversity policy is described on page 19. Richard Davidson was appointed with effect from 26 January 2019 and as Chairman at the close of the AGM on 28 February 2019, following the retirement of Paul Trickett from the Board.

The Board believes in regular refreshment of the Board and in the benefits of having a diverse range of experience, skills, length of service and backgrounds. The Board is also of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company or, indeed, its chairman. Continuity and experience can add significantly to the strength of the Board especially in times of market turbulence. Nevertheless, the Board's policy is that in normal circumstances the Chairman and Directors are expected to serve for a nine-year term, though this may be adjusted for reasons of flexibility. All the current Directors have served for fewer than nine years.

Board performance and re-appointment of Directors

The Board undertakes a formal annual assessment of Directors and their collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Board appointed Lintstock Limited to facilitate an external independent review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which were discussed by the Board in October 2019, providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman was led by the Chair of the Audit Committee. The Board has agreed to utilise external facilitators every three years.

In line with the Board's policy, all continuing Directors offer themselves for re-election at the forthcoming AGM. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board, and the Chairman recommends their re-election to Shareholders.

Corporate Governance Report

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance cover in respect of legal action against its Directors. The Company has also entered into qualifying third party deeds of indemnity with each Director to cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The deeds were in force during the year to 31 December 2019 and up to the date of approval of this report. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fines.

Training and Advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company. Directors are also encouraged to attend industry and other seminars. Directors, in the furtherance of their duties, may also 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's 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. The Company Secretaries are also responsible for advising the Board through the Chairman on all governance matters.

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 managing any actual or potential conflicts of interest. No conflicts of interest arose during the year under review.

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 Company applies the guidance published by the Financial Reporting Council on internal controls. Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the Company's financial information is reliable. The Directors have a robust process for identifying, evaluating and managing the significant risks faced by the Company, which are recorded in a risk matrix. As part of its risk process, the Board seeks to identify emerging risks to ensure that they are effectively managed as they develop and recorded in the risk matrix. The Board considers each risk as well as reviewing the mitigating controls in place. Each risk is rated for its "likelihood" and "impact" and the resultant numerical rating determines its ranking into High, Medium or Low Risk. The principal risks faced by the Company and Board's approach to managing these risks are set out on page 6. This process was in operation during the year and continues in place up to the date of this report. It principally involves the Audit Committee receiving and examining regular reports from the main service providers. The Board then receives a detailed report from the Audit Committee on its findings. The Directors have not identified any significant failures or weaknesses in respect of the Company's internal control systems.

Relations with Shareholders

The Board places great importance on communication with Shareholders. Directors of the Company are available to meet with any Shareholder on request. The Managers meet the larger Shareholders twice a year to provide them with a detailed report on the progress of the Company and to receive feedback. The Board receives reports from the Managers on these Shareholder meetings. Furthermore, following publication of the Annual Report, the Chairman emails the largest Shareholders inviting questions on all aspects concerning the Company. The Directors may be contacted via the Secretaries whose details are shown on the back cover or through the Chairman's email address, richard.davidson@aberforth.co.uk. During the year, the Chairman was in contact with some Shareholders to discuss a range of topics and provided feedback to the Board.

All Shareholders have the opportunity to attend and vote at the AGM where the Directors and Managers are available to discuss important issues affecting the Company. Proxy voting figures are available at the AGM and via the Managers' website shortly thereafter. In addition to the annual and half yearly reports, the Company's performance, daily Net Asset Values, monthly factsheets and other relevant information is published at www.aberforth.co.uk.

Corporate Governance Report

Environmental, Social and Governance Matters

The Board expects good standards at the companies in which the Company is invested. In this regard, it is satisfied that the Managers consistently and proactively engage with investee companies on environmental, social and governance matters, where these are material to the investment case and therefore to the long term success of the Company. The Managers believe that sound environmental, social and governance 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 environmental, social and governance concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

UK Stewardship Code

The Board and the Managers support the UK Stewardship Code, issued by the FRC, 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' Stewardship Policy, which is available within the literature library section of the Managers' website, at www.aberforth.co.uk. The FRC has issued the UK Stewardship Code 2020 and the Managers are considering it in respect of their own stewardship policy.

Voting Policy

The Board has given discretionary voting powers to the Managers to exercise the 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.

By Order of the Board
Richard Davidson
Chairman
29 January 2020

Audit Committee Report

The Committee members are all independent non-executive directors who have been selected by the Board to fulfil the Committee’s duties based upon their range of financial and commercial expertise. They are Julia Le Blan (Chair), Richard Rae and Paula Hay-Plumb. The current members’ biographies can be found on page 20. Each member of the Committee has recent and relevant financial experience and the Committee as a whole has competency relevant to the sector in which the Company operates.

Principal Objective:

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 are reviewed annually and are available upon request.

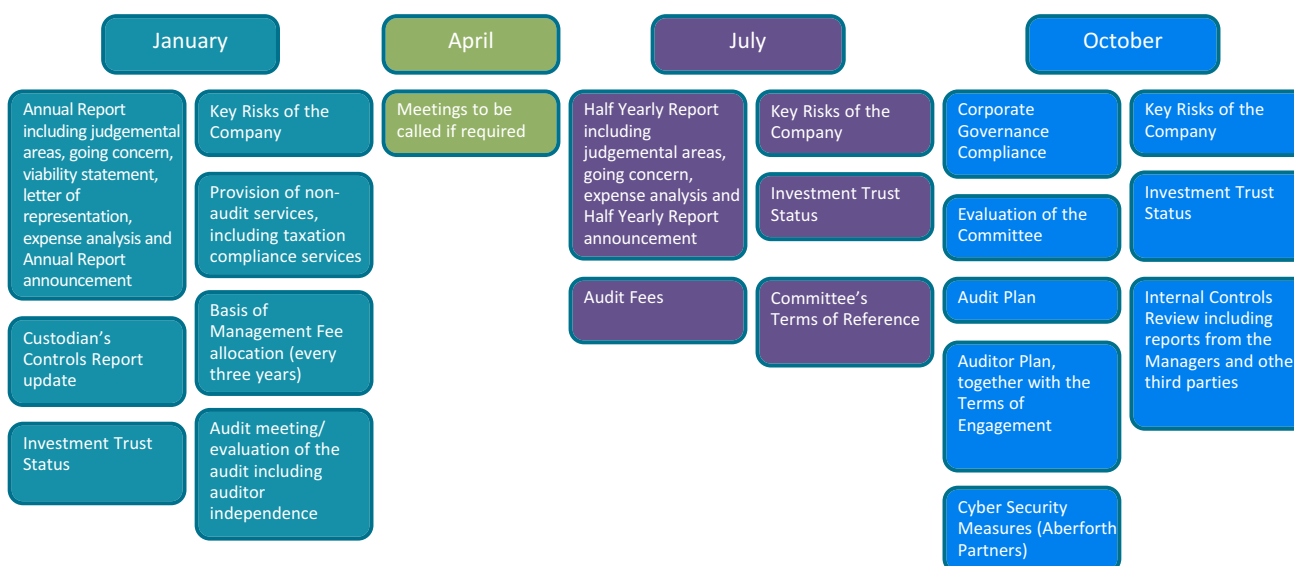
Principal Responsibilities:

The Committee has been given the following responsibilities:

- reviewing the Company’s internal financial controls and risk management systems, identifying principal risks and monitoring the mitigating controls that have been established;
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust that is listed on the London Stock Exchange;
- reviewing the Company’s annual and interim financial statements and any formal announcements on the Company’s financial performance, the accounting policies adopted and the main judgemental areas;
- ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable;
- agreeing the external auditor’s terms of appointment and remuneration, determining the independence and objectivity of the auditor and assessing the effectiveness of the audit;
- considering whether it is appropriate for certain non-audit services to be carried out by the auditor;
- reviewing the need for an internal audit function; and
- assessing the going concern and viability of the Company, including assumptions used.

The Chair reports formally to the Board on the Committee’s proceedings after each meeting. To assist with the various duties of the Committee, a meeting plan has been adopted and is reviewed annually. This is the latest version.

Audit Committee Annual Plan



Meetings

Typically three meetings are held each year. Representatives of Aberforth Partners LLP, who provide the Company with secretarial services, attend all of the meetings. Deloitte LLP (“Deloitte”), the external auditor, attends the meetings in January and October.

During the last twelve months the Committee has focused on the areas described below.

Audit Committee Report

Matters Considered and Action taken by the Committee

Financial Reporting

In July 2019, the Committee focused on the preparation and content of the Half Yearly Report, including supporting documentation from the Secretaries. The Half Yearly Report was not audited, as is customary for investment trusts.

In January 2020, the Committee received a report and supporting presentation from the external auditor on its audit of the financial statements for the year to 31 December 2019. In addition, the Secretaries reported on the preparation of the financial results and other relevant matters. The Committee considered these reports in detail and took further comfort from the internal control and risks review covered below. The Chair of the Committee had discussed the outcome of the audit process and the Annual Report with the audit partner without representatives of Aberforth Partners being present. As part of its review of the financial statements, the Committee considered the following significant issues.

Significant Issue

How the issue was addressed

Ownership and valuation of the investment portfolio as at 31 December 2019

The Committee reviewed the Managers' control framework, which includes controls over valuation and ownership of investments. The appointed Depositary is responsible for holding and controlling all assets of the Company entrusted for safekeeping. Ownership of investments is verified through reconciliations by the Managers to Custodian records. The Committee has reviewed internal control reports from the Company's Custodian. The valuation of the portfolio is undertaken in accordance with the accounting policy for investments as stated in Note 1 to the financial statements.

Revenue recognition including dividend completeness and the accounting treatment of special dividends

The Committee reviewed the Managers' control framework, which includes controls over revenue recognition. The Committee reviewed actual and forecast revenue entitlement at each meeting. The accounting treatment of all special dividends is reviewed by the Committee and the external auditor.

Investment Trust Status

The Committee confirmed the position of the Company in respect of compliance with investment trust status at each meeting with reference to a checklist prepared by the Secretaries. The position is also confirmed by the external auditor as part of the audit process.

Calculation of management fees

The Committee reviewed the Managers' control framework, which includes controls over expenses, including management fees. The Committee reviewed management fees payable to the Managers. The external auditors have tested the management fees as part of their audit.

Potential impact of Brexit

The Committee considered the references in the Annual Report to the potential impact of Brexit on the Company, noting those contained in the 'Principal Risks' section and in the 'Managers' Report'.

The Committee read and discussed this Annual Report and concluded that it is fair, balanced and understandable. It provides the information necessary for shareholders to assess the Company's performance, objective and strategy. Accordingly, the Committee recommended to the Board that the financial statements be approved for publication.

Going Concern and Viability

The Committee received reports on going concern from the Secretaries in July and January. The content of the investment portfolio, trading activity, portfolio diversification and the existing debt facility were also discussed. After due consideration, the Committee concluded it was appropriate to prepare the Company's accounts on a going concern basis and made this recommendation to the Board. The main factors that led to this conclusion were the portfolio composition and the relatively low levels of cash required to continue operating the Company.

The Committee also assessed the viability of the Company. The Committee agreed that it was appropriate to provide a Viability Statement for a five year period for the reasons set out in the Statement on page 6. In January 2020, the Committee reviewed a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' funds, the debt facility, investment income and also the impact of losing investment trust status. The outcome of this activity led the Committee to recommend the Viability Statement to the Board.

Audit Committee Report

Matters Considered and Action taken by the Committee

Internal Control and Risks

The Committee carefully considered a Matrix of the Company's principal risks and the mitigating controls at each meeting. In October the risks and controls were addressed in more detail. The Committee enhanced the content of the Matrix during the year, including consideration of emerging risks and procedures for their identification, and believes that it continues to reflect accurately the Company's principal risks. These risks, which are detailed on page 6, have not changed significantly during the year.

Also in October the Committee received the Managers' report on internal controls, including the assurance report issued by PricewaterhouseCoopers LLP (PwC) on the nature and effectiveness of the control framework that has been established by the Managers. A representative of PwC attended the meeting. In addition, the Committee received internal control reports from the Custodian, Northern Trust, and the Registrar, Link Asset Services. The Committee reviewed these reports and concluded that there were no significant control weaknesses or other issues that needed to be brought to the Board's attention.

The Committee continues to monitor closely the increasing risk arising from cyber threats, notwithstanding that the Company outsources all of its activities to external parties. In October, the Committee received presentations from Aberforth Partners and their external service provider for cyber security, covering the measures that are in place to protect the Managers' systems and the Company information that they contain. The Committee noted the assurances that have been given about the effectiveness of control measures. It concluded that, although cyber-attack represents an increasing threat to companies and public bodies worldwide, the Company has taken all reasonable steps to ensure that appropriate protection measures are in place. Nevertheless this particular threat will continue to be monitored closely.

External Auditor, Audit Planning and Audit fees

Deloitte was appointed as the Company's Auditor on 17 April 2013 following a formal tender process and this appointment has been renewed at each subsequent AGM. The Committee reviews the reappointment of the auditor every year and the need to put the audit out to tender. Based upon existing legislation, another tender process will be conducted no later than 2023. The Company is therefore in compliance with the provisions of "The Statutory Audit Services for Large Companies Market Investigation" (Mandatory use of competitive tender processes and audit committee responsibilities) Order 2014 as issued by the Competition & Markets Authority.

The audit partner needs to be rotated every five years and Chris Hunter was first appointed audit partner for the 2018 audit. Deloitte presented its audit plan to the Committee in October in advance of the 2019 audit. The plan set out the scope of the audit, the principal risks that would be addressed (as detailed in the Independent Auditor's Report), the timetable and the proposed fees. These amounted to £22,100, excluding VAT, for the year (2018: £20,700). There were no non-audit activities carried out by Deloitte.

Evaluation of the Auditor

Following the completion of the audit in January 2020, the Committee reviewed the auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience. The Committee noted positive feedback from the Secretaries on Deloitte's performance on the audit. Additionally Deloitte had provided confirmation that they have complied with the relevant UK professional and regulatory requirements on independence.

Taking these factors into account, the Committee is satisfied that the external audit was carried out effectively. It has therefore recommended the re-appointment of Deloitte as the Company's Auditor for the 2020 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

An external review of the Committee's effectiveness, using an evaluation questionnaire, was facilitated by Lintstock Limited during the year. The outcome was positive with no significant concerns expressed. The Committee has agreed to utilise external facilitators every three years.

Julia Le Blan
Audit Committee Chair
29 January 2020

Directors' Remuneration Policy

This section provides details of the remuneration policy applying to the Directors of the Company. All Directors are non-executive, appointed under the terms of letters of appointment and none has a service contract. The Board has prepared this report in accordance with the requirements of the Companies Act 2006.

This policy was previously approved by Shareholders at the Annual General Meeting held in 2017. The policy provisions continue to apply until they are next put to 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 considers and determines all matters relating to the Directors' remuneration at the beginning of each financial period. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Company's 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 any views to the Company in respect of the Directors' remuneration policy. The remuneration policy is not subject to employee consultation as the Company has no employees. It is intended that this policy will remain in place for the following financial year and subsequent periods.

The Board, at its discretion, determines Directors' remuneration subject to the aggregate annual fees not exceeding £200,000 in accordance with the Company's Articles of Association. Such remuneration solely comprised Directors' fees as set out below and Directors are not eligible for any other remuneration.

The table below sets out the Directors' fees in respect of the years ended 31 December 2019 and 31 December 2020.

	Annual Fees 2020 £	Annual Fees 2019 £
Chairman of the Company	37,425	36,750
Director and Chair of the Audit Committee	30,950	30,500
Director and Member of the Audit Committee	26,450	26,000
Director	24,950	24,500

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 has prepared this report in accordance with the requirements of the Companies Act 2006. The law requires the Company's Auditor to audit certain elements of this report. These elements are described below as "audited". The Auditor's opinion is included in the Independent Auditor's Report on page 36.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company and is subject to annual re-election by Shareholders. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter at every subsequent Annual General Meeting.

The following Directors held office during the year.

Director	Date of Appointment	Date of election/re-election
Richard Davidson, <i>Chairman</i>	26 January 2019	AGM 2020
Paula Hay-Plumb	29 January 2014	AGM 2020
Julia Le Blan	29 January 2014	AGM 2020
Richard Rae	26 January 2012	AGM 2020
Paul Trickett (retired 28 February 2019)	30 January 2013	n/a
Martin Warner	1 March 2018	AGM 2020

Directors' Fees (Audited)

The emoluments of the Directors who served during the year were as follows.

Director	Fees (Total Emoluments) 2019 £	Fees (Total Emoluments) 2018 £
Richard Davidson, Chairman (appointed 26 January 2019)	32,966	–
David Jeffcoat (retired 1 March 2018)	–	4,932
Julia Le Blan, Chair of the Audit Committee	30,500	29,158
Paula Hay-Plumb	26,000	25,166
Richard Rae	26,000	25,500
Paul Trickett, Chairman (retired 28 February 2019)	5,940	36,000
Martin Warner (appointed 1 March 2018)	24,500	20,038
	145,906	140,794

Directors are remunerated exclusively by fixed fees and do not receive bonuses, share options, pension contributions or other benefits apart from the reimbursement of allowable expenses.

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends and share buy-backs.

	2019 £'000	2018 £'000	Absolute change £'000
Total Directors' remuneration	146	141	5
Total dividends in respect of that year	32,287	34,473	(2,186)
Total share buy-back consideration	12,622	32,826	(20,204)

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests (Audited)

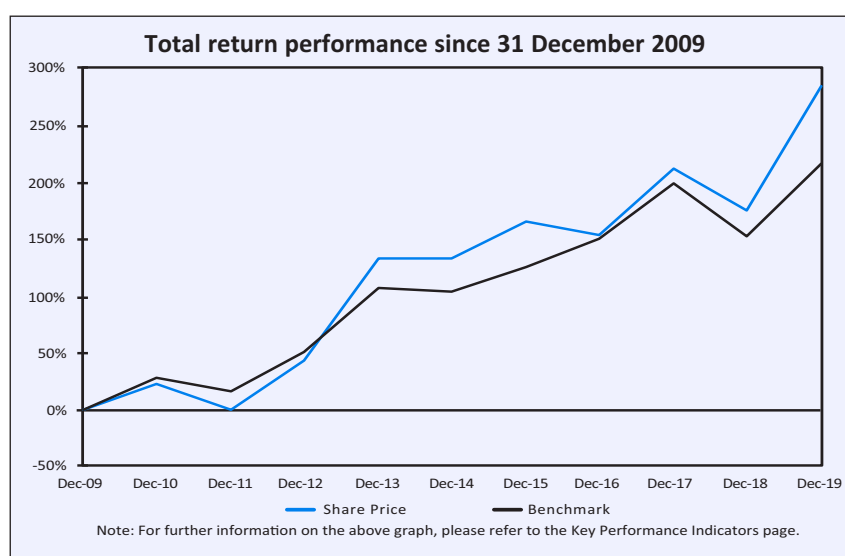
The Directors who held office at any time during the year ended 31 December 2019 and their interests in the Shares of the Company as at that date and 1 January 2019 were as follows.

Directors	Nature of Interest	Ordinary Shares	
		31 December 2019	1 January 2019
Richard Davidson, Chairman	Beneficial	20,350	n/a
Paul Trickett, (retired 28 February 2019)	Beneficial	n/a	7,140
Julia Le Blan	Beneficial	3,000	3,000
Paula Hay-Plumb	Beneficial	2,600	2,100
Richard Rae	Beneficial	4,000	4,000
Martin Warner	Beneficial	2,000	1,000
	Non Beneficial	5,000	n/a

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2019 and 29 January 2020. The Company has no share options or share schemes. Directors are not required to own shares in the Company.

Consideration of Shareholders' Views and Statement of Voting

An ordinary resolution to approve the remuneration report is put to members at each Annual General Meeting. To date, no Shareholders have commented in respect of the remuneration report or policy. At the last Annual General Meeting held on 28 February 2019, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report: of the 41,781,794 proxy votes, 41,768,551 were cast in favour, 11,122 were cast against and 2,121 votes were withheld. At the Annual General Meeting held in 2017, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Policy: of the proxy votes cast, 42,633,638 votes were cast in favour, 13,370 were cast against and 3,965 votes were withheld.



Share Price Performance

This graph compares the performance of the Company's share price with the Numis Smaller Companies Index (excluding Investment Companies), on a total return basis (assuming all dividends reinvested) since 31 December 2009. This index has been selected for the purposes of comparing the Company's share price performance as it has been the Company's benchmark since inception.

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 31 December 2019:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which those changes occurred and decisions were taken.

On behalf of the Board

Richard Davidson

Chairman

29 January 2020

Directors' Responsibility Statement

The Directors are required by law to prepare financial statements for each financial year in accordance with applicable law and regulations. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (Financial Reporting Standard 102 and applicable law). 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 period. 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and that enable them to ensure that the financial statements 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 Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Managers. The work undertaken by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

Each of the Directors confirms to the best of their knowledge that:

- (a) the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- (b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- (c) the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Richard Davidson

Chairman

29 January 2020

Independent Auditor's Report

To the Members of Aberforth Smaller Companies Trust plc

Opinion

In our opinion the financial statements of Aberforth Smaller Companies Trust plc (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice issued by the Association of Investment Companies in October 2019 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the reconciliation of movement in shareholders' funds;
- the balance sheet;
- the cash flow statement; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies ('SORP') in October 2019 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none">• Valuation and ownership of investments
Materiality	The materiality that we used in the current year was £14.06m (2018: £11.54m) which was determined as 1% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes to our approach.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1a to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report

Conclusions relating to going concern, principal risks and viability statement (continued)

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 6 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 6 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; or
- the directors' explanation on pages 6 and 22 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.

We are also required to report whether the directors' statement relating to the prospects of the company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and ownership of investments	
Key audit matter description	<p>The listed investments held by the company, £1,417m (2018: £1,168m) are key to its performance and account for the majority of the total assets 99.7% at 31 December 2019 (2018: 99.7%). Please see note 1b and note 10.</p> <p>There is a risk that investments may not be valued correctly or may not represent the property of the company. Given the nature and size of the balance and its importance to the entity, we have considered that there is a potential risk of fraud in this area.</p> <p>This key audit matter is also included in the Report of the Audit Committee within the annual report as a significant audit risk.</p>
How the scope of our audit responded to the key audit matter	<p>We have performed the following procedures to test the valuation and ownership of the investment portfolio at 31 December 2019:</p> <ul style="list-style-type: none"> • critically assessed the design and implementation of the controls over valuation and ownership of listed investments; • agreed 100% of the company's investment portfolio at the year end to confirmations received directly from the custodian, Northern Trust and the depository, Natwest; • independently agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an external pricing source; • challenged management estimates or judgements such as the split between capital and revenue income and investment hierarchy levels; and • reviewed the internal controls report over Northern Trust, as it applies to custody and attended the Audit Committee meeting at which the Northern Trust controls report was evaluated to assess the adequacy of the sign and implementation of controls at the custodian.
Key observations	<p>Based on the work performed we conclude that the valuation and ownership of listed investments is appropriate.</p>

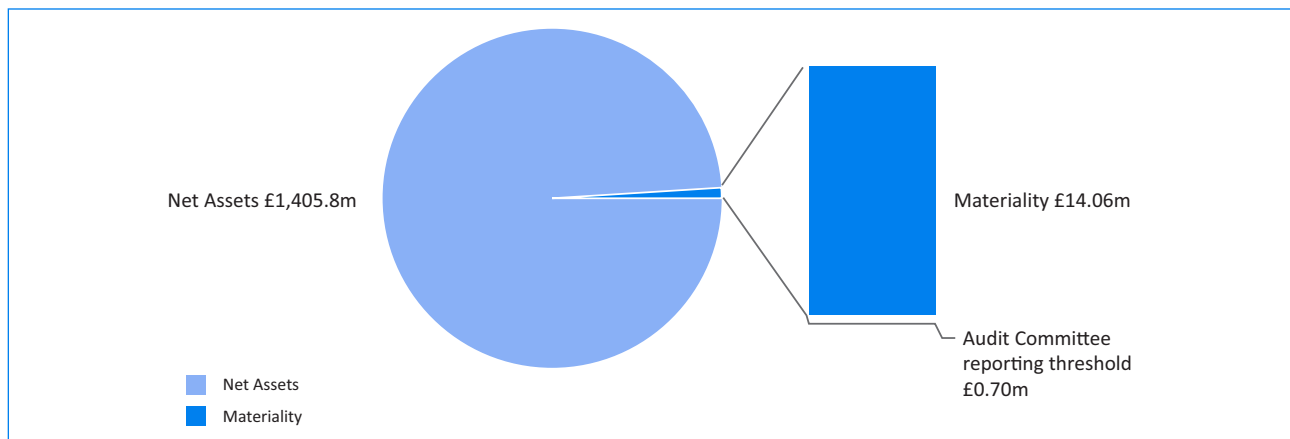
Independent Auditor's Report

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£14.06m (2018: £11.54m)
Basis of determining materiality	1% (2018: 1%) of net assets
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it shows the most relevant benchmark for investors and is a key driver of shareholder value.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the company's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £702,900 (2018: £230,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control and assessing the risks of material misstatement through quantitative and qualitative factors relating to each account balance, class of transactions and disclosure. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our risk assessment, we assessed the control environment in place at the Investment Managers and Secretaries to the extent relevant to our audit.

Independent Auditor's Report

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider 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 position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area; valuation and ownership of listed investments given the nature of investments, being a key performance indicator and an area of focus to users of the financial statements; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the Companies Act 2006 and UK Listing Rules, as well as the company qualification as an Investment Trust under UK tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the valuation and ownership of listed investments as the key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing any correspondence with HMRC and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent Auditor's Report

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 17 April 2013 to audit the financial statements for the period ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2013 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Hunter CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
29 January 2020

- (a) The maintenance and integrity of the Aberforth Partners LLP web site is the responsibility of the partners of Aberforth Partners LLP; the work carried out by the auditor of Aberforth Smaller Companies Trust plc does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2019

	Note	2019			2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments	10	–	269,836	269,836	–	(251,019)	(251,019)
Investment income	3	42,478	295	42,773	46,263	3,429	49,692
Other income	3	–	–	–	7	–	7
Investment management fee	4	(3,326)	(5,543)	(8,869)	(3,777)	(6,295)	(10,072)
Portfolio transaction costs	5	–	(2,595)	(2,595)	–	(2,935)	(2,935)
Other expenses	5	(698)	–	(698)	(742)	–	(742)
Net return before finance costs and tax		38,454	261,993	300,447	41,751	(256,820)	(215,069)
Finance costs	6	(351)	(586)	(937)	(301)	(501)	(802)
Return on ordinary activities before tax		38,103	261,407	299,510	41,450	(257,321)	(215,871)
Tax on ordinary activities	7	–	–	–	–	–	–
Return attributable to equity shareholders		38,103	261,407	299,510	41,450	(257,321)	(215,871)
Returns per Ordinary Share	9	42.26p	289.96p	332.22p	45.30p	(281.22p)	(235.92p)

The Board declared on 29 January 2020 a final dividend of 22.00p per Ordinary Share and a special dividend of 4.00p per Ordinary Share. The Board declared on 26 July 2019 an interim dividend of 10.00p per Ordinary Share.

The total column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2019

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2018		906	82	115,375	949,213	88,160	1,153,736
Return on ordinary activities after taxation		–	–	–	261,407	38,103	299,510
Equity dividends paid	8	–	–	–	–	(34,824)	(34,824)
Purchase of Ordinary Shares	14	(11)	11	(12,622)	–	–	(12,622)
Balance as at 31 December 2019		895	93	102,753	1,210,620	91,439	1,405,800

For the year ended 31 December 2018

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2017		930	58	148,201	1,206,534	79,919	1,435,642
Return on ordinary activities after taxation		–	–	–	(257,321)	41,450	(215,871)
Equity dividends paid	8	–	–	–	–	(33,209)	(33,209)
Purchase of Ordinary Shares	14	(24)	24	(32,826)	–	–	(32,826)
Balance as at 31 December 2018		906	82	115,375	949,213	88,160	1,153,736

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments at fair value through profit or loss	10	1,416,678	1,168,165
Current assets			
Debtors	11	2,809	3,230
Cash at bank		187	59
		2,996	3,289
Creditors (amounts falling due within one year)	12	(13,874)	(309)
Net current (liabilities)/assets		(10,878)	2,980
TOTAL ASSETS LESS CURRENT LIABILITIES		1,405,800	1,171,145
Creditors (amounts falling due after more than one year)	13	–	(17,409)
TOTAL NET ASSETS		1,405,800	1,153,736
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital	14	895	906
Capital redemption reserve	15	93	82
Special reserve	15	102,753	115,375
Capital reserve	15	1,210,620	949,213
Revenue reserve	15	91,439	88,160
TOTAL SHAREHOLDERS' FUNDS		1,405,800	1,153,736
Net Asset Value per Ordinary Share	16	1,570.15p	1,273.72p

Approved and authorised for issue by the Board of Directors on 29 January 2020 and signed on its behalf by:

Richard Davidson,
Chairman

Company Number: SC126524
Registered in Scotland

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Net revenue before finance costs and tax		38,454	41,751
Scrip dividends received	3	–	(319)
Receipt of special dividends taken to capital	3	295	3,429
Investment management fee charged to capital	4	(5,543)	(6,295)
Decrease in debtors		421	419
Decrease in other creditors		(13)	(21)
Net cash inflow from operating activities		33,614	38,964
Investing activities			
Purchases of investments		(300,568)	(357,515)
Sales of investments		319,296	376,211
Cash inflow from investing activities		18,728	18,696
Financing activities			
Purchases of Ordinary Shares	14	(12,622)	(32,826)
Equity dividends paid	8	(34,824)	(33,209)
Interest and fees paid	17	(1,018)	(609)
Net (repayment)/drawdown of bank debt facilities (before any costs)	18	(3,750)	8,750
Cash outflow from financing activities		(52,214)	(57,894)
Change in cash during the period		128	(234)
Cash at the start of the period		59	293
Cash at the end of the period		187	59

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Significant Accounting Policies

A summary of the principal accounting policies adopted, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of accounting

The financial statements have been presented under Financial Reporting Standard 102 (FRS 102) and under the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in October 2019, applicable for accounting periods beginning on or after 1 January 2019. The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of the Company's investments as described below. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates. The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) 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. Quoted investments are valued at their fair value, which is represented by the bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value. Purchases and sales of investments are recognised and de-recognised on trade date. Gains and losses arising from changes in fair value are included in the capital return for the period and transaction costs on acquisition or disposal of a security are expensed to the capital reserve.

(c) Income

Dividends receivable on quoted equity shares are accounted for on the ex dividend date as revenue, except where, in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, an amount equivalent to the cash dividend is recognised as income. Any surplus or deficit in the value of the shares received compared to the cash dividend forgone is recognised as capital. Other income is accounted for on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except as follows:

- expenses that are related to the acquisition and disposal of an investment are charged to capital; and
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

(e) Finance costs

Interest costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

The arrangement fee in relation to the £125 million bank debt facility is being amortised over the expected life of the facility (with 62.5% allocated to capital reserve and 37.5% to revenue reserve) on a straight line basis. The unamortised value of these costs is deducted from the fair value of the bank debt facility.

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year end;
- gains on the return of capital by way of investee companies paying dividends that are capital in nature; and
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation is accounted for in this reserve.

(h) Revenue reserve

This reserve represents the only reserve from which dividends can be funded.

(i) Capital Redemption Reserve

The nominal value of shares bought back for cancellation is added to this reserve.

Notes to the Financial Statements

2 Alternative Performance Measures

Alternative Performance Measures (“APMs”) are measures that are not defined by FRS102. The Company believes that APMs, referred to as “Key Performance Indicators” on page 7, provide shareholders with important information on the Company and are appropriate for an investment trust company. These APMs are also a component of management reporting to the Board. A glossary of the APMs can be found on page 59.

3 Income

	2019			2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income from investments						
UK dividends	41,162	295	41,457	43,758	3,429	47,187
Scrip dividends	–	–	–	319	–	319
Overseas dividends	622	–	622	1,167	–	1,167
Property income distributions	694	–	694	1,019	–	1,019
	42,478	295	42,773	46,263	3,429	49,692
Other income						
Underwriting commission	–	–	–	7	–	7
Total income	42,478	295	42,773	46,270	3,429	49,699

During the year the Company received special dividends amounting to £2,785,000 (2018: £6,313,000), of which £295,000 (2018: £3,429,000) were considered a return of capital by the investee company.

4 Investment Management Fee

	2019			2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	3,326	5,543	8,869	3,777	6,295	10,072

Details of the investment management contract can be found on page 21.

5 Other Expenses

	2019 £'000	2018 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Directors’ fees (refer to Directors’ Remuneration Report)	146	141
Depositary fee	119	140
Secretarial services	105	102
FCA and LSE listing fees	70	68
Custody and other bank charges	59	58
Registrar fee	57	66
Auditor’s fee – audit of the financial statements	26	25
– for non-audit services	–	–
AIC fees	22	21
Directors’ and Officers’ liability insurance	11	11
Legal fees	5	27
Other expenses	78	83
	698	742

Notes to the Financial Statements

5 Other Expenses (continued)

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss, and charged to capital, are analysed below:

	2019 £'000	2018 £'000
Analysis of total purchases		
Purchase consideration before expenses	298,590	355,681
Commissions	529	667
Taxes	1,449	1,486
Total purchase expenses	1,978	2,153
Total purchase consideration	300,568	357,834
Analysis of total sales		
Sales consideration before expenses	319,913	376,993
Commissions	(617)	(782)
Total sale proceeds net of expenses	319,296	376,211
Total expenses incurred in acquiring/disposing of investments	2,595	2,935

6 Finance Costs

	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	328	547	875	278	462	740
Amortisation of bank debt facility costs	23	39	62	23	39	62
	351	586	937	301	501	802

7 Taxation

Analysis of tax charged on return on ordinary activities

	Revenue £'000	2019 Capital £'000	Total £'000	Revenue £'000	2018 Capital £'000	Total £'000
UK corporation tax charge for the year (see below)	–	–	–	–	–	–

Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company. The differences are explained below.

Total returns on ordinary activities before tax	38,103	261,407	299,510	41,450	(257,321)	(215,871)
Corporation tax at 19% (2018: 19%)	7,240	49,667	56,907	7,876	(48,891)	(41,015)
Adjusted for the effects of:						
Non-taxable UK dividend income	(7,821)	(56)	(7,877)	(8,375)	(652)	(8,966)
Non-taxable overseas dividend income	(118)	–	(118)	(222)	–	(222)
Expenses not deductible for tax purposes	–	493	493	–	558	558
Excess expenses for which no relief has been taken	699	1,165	1,864	721	1,291	1,951
Non-taxable capital (gains)/losses	–	(51,269)	(51,269)	–	47,694	47,694
UK corporation tax charge for the year	–	–	–	–	–	–
Irrecoverable overseas taxation suffered	–	–	–	–	–	–
Total tax charge for the year	–	–	–	–	–	–

The Company has not recognised a potential asset for deferred tax of £23,494,000 (2018: £24,177,000) in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted. The potential deferred tax asset has been calculated using a corporation tax rate of 17% (2018: 19%).

Notes to the Financial Statements

8 Dividends

	2019	2018
	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2018 of 20.75p (2017: 19.75p) paid on 7 March 2019	18,795	18,332
Special dividend for the year ended 31 December 2018 of 7.75p (2017: 6.70p) paid on 7 March 2019	7,020	6,219
Interim dividend for the year ended 31 December 2019 of 10.00p (2018: 9.50p) paid on 30 August 2019	9,009	8,658
	34,824	33,209
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2019 of 22.00p (2018: final dividend of 20.75p) payable on 6 March 2020	19,697	18,795
Special dividend for year ended 31 December 2019 of 4.00p (2018: 7.75p) payable on 6 March 2020	3,581	7,020
	23,278	25,815

The final dividend and the special dividend have not been included as liabilities in the financial statements for 2019 or 2018.

9 Returns per Ordinary Share

	2019	2018
The returns per Ordinary Share are based on:		
Returns attributable to Ordinary Shareholders	£299,510,000	(£215,871,000)
Weighted average number of shares in issue during the year	90,154,625	91,501,299
Return per Ordinary Share	332.22p	(235.92p)

There are no dilutive or potentially dilutive shares in issue.

10 Investments

	2019	2018
	£'000	£'000
Investments at fair value through profit or loss		
Opening fair value	1,168,165	1,440,496
Opening fair value adjustment	212,901	(159,308)
Opening book cost	1,381,066	1,281,188
Purchases at cost	298,590	355,681
Sale proceeds	(319,913)	(376,993)
Realised gains on sales	92,052	121,190
Closing book cost	1,451,795	1,381,066
Closing fair value adjustment	(35,117)	(212,901)
Closing fair value	1,416,678	1,168,165

All investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated on pages 16 to 18.

Gains/(losses) on investments:

Net realised gains on sales	92,052	121,190
Movement in fair value adjustment	177,784	(372,209)
Net gains/(losses) on investments	269,836	(251,019)

The company received £319,913,000 (2018: £376,993,000) from investments sold in the year. The book cost of these investments was £227,861,000 (2018: £255,803,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Notes to the Financial Statements

10 Investments (continued)

In accordance with FRS 102 fair value measurements have been classified using the fair value hierarchy:

Level 1 - using unadjusted quoted prices for identical instruments in an active market;

Level 2 - using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 - using inputs that are unobservable (for which market data is unavailable).

Investments held at fair value through profit or loss

As at 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,416,678	–	–	1,416,678
Unlisted equities	–	–	–	–
Total financial asset investments	1,416,678	–	–	1,416,678

As at 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,168,165	–	–	1,168,165
Unlisted equities	–	–	–	–
Total financial asset investments	1,168,165	–	–	1,168,165

11 Debtors

	2019 £'000	2018 £'000
Investment income receivable	2,777	3,187
Other debtors	32	43
Total	2,809	3,230

12 Creditors: Amounts falling due within one year

	2019 £'000	2018 £'000
Other creditors	153	309
Bank debt facility	13,750	–
Less: Unamortised costs on bank debt facility	(29)	–
Total	13,874	309

Borrowing facilities

On 16 May 2017, the Company extended the unsecured £125 million Facility Agreement with The Royal Bank of Scotland plc for a further three years and on 17 April 2018 the Facility Agreement was novated to The Royal Bank of Scotland International Limited. A 0.15% arrangement fee was paid in connection with the extension in May 2017. This is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 0.80% over LIBOR. A non-utilisation fee is also payable on any undrawn element at a rate ranging from 0.30% to 0.50%, depending on the level of utilisation.

The main covenant under the facility requires that, at every month end, total borrowings shall not exceed 25% of the Company's total adjusted gross assets. There were no breaches of the covenants during the year. As at 31 December 2019, total borrowings represented 1.0% of total adjusted gross assets (as defined by the Facility Agreement). The facility is due to expire on 15 June 2020.

13 Creditors: Amounts falling due after more than one year

	2019 £'000	2018 £'000
Bank debt facility	–	17,500
Less: Unamortised costs on bank debt facility	–	(91)
Total	–	17,409

Notes to the Financial Statements

14 Share Capital

	2019		2018	
	No. of Shares	£'000	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	333,299,254	3,333	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	89,533,066	895	90,580,311	906

During the year, the Company bought back and cancelled 1,047,245 shares (2018: 2,418,826) at a total cost of £12,622,000 (2018: £32,826,000). During the period 1 January to 29 January 2020, no shares have been bought back.

15 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2017	930	58	148,201	1,206,534	79,919	1,435,642
Net gains on sale of investments	–	–	–	121,190	–	121,190
Movement in fair value adjustment	–	–	–	(372,209)	–	(372,209)
Cost of investment transactions	–	–	–	(2,935)	–	(2,935)
Management fees charged to capital	–	–	–	(6,295)	–	(6,295)
Finance costs charged to capital	–	–	–	(501)	–	(501)
Special dividends taken to capital	–	–	–	3,429	–	3,429
Revenue return attributable to equity shareholders	–	–	–	–	41,450	41,450
Equity dividends paid	–	–	–	–	(33,209)	(33,209)
Purchase of Ordinary Shares	(24)	24	(32,826)	–	–	(32,826)
At 31 December 2018	906	82	115,375	949,213	88,160	1,153,736
Net gains on sale of investments	–	–	–	92,052	–	92,052
Movement in fair value adjustment	–	–	–	177,784	–	177,784
Cost of investment transactions	–	–	–	(2,595)	–	(2,595)
Management fees charged to capital	–	–	–	(5,543)	–	(5,543)
Finance costs charged to capital	–	–	–	(586)	–	(586)
Special dividends taken to capital	–	–	–	295	–	295
Revenue return attributable to equity shareholders	–	–	–	–	38,103	38,103
Equity dividends paid	–	–	–	–	(34,824)	(34,824)
Purchase of Ordinary Shares	(11)	11	(12,622)	–	–	(12,622)
At 31 December 2019	895	93	102,753	1,210,620	91,439	1,405,800

16 Net Asset Value per Share

The Net Asset Value per Share and the net assets attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows.

	2019	2018
Net assets attributable	£1,405,800,000	£1,153,736,000
Ordinary Shares in issue at the end of year	89,533,066	90,580,311
Net Asset Value per Ordinary Share	1,570.15p	1,273.72p
Dividend reinvestment factor (defined in glossary)	1.029434	1.024848
Net Asset Value on a total return basis	1,616.37p	1,305.37p

The net asset value total return for the year ended 31 December 2019 is the percentage movement from the net asset value as at 31 December 2018 of 1,273.72p (31 December 2017: 1,543.72p) to the net asset value, on a total return basis, at 31 December 2019 of 1,616.37p (31 December 2018: 1,305.37p), which is 26.9% (2018: -15.4%).

Notes to the Financial Statements

17 Interest and Finance Costs Paid

	2019 £'000	2018 £'000
Interest/non-utilisation costs on bank debt facility	1,018	609

18 Analysis of changes in net debt

	Net debt at 1 January 2019 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2019 £'000
Cash at bank	59	128	–	187
Bank debt facility	(17,500)	3,750	–	(13,750)
Bank debt facility fee (see notes 12 and 13)	91	–	(62)	29
Total	(17,350)	3,878	(62)	(13,534)

19 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 16 to 18), cash balances, bank debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement, and accrued income. Bank debt facilities are utilised when the Managers believe it is in the interest of the Company to gear the portfolio. Note 1 sets out the significant 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 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main risks that the Company faces arising from its financial instruments are as follows.

- (i) *Interest rate risk* is the risk that the interest receivable/payable and 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.
- (ii) *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.
- (iii) *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.
- (iv) *Market price risk* is the risk that the market value of investment holdings will fluctuate as a result of fluctuations in market prices caused by factors other than interest rate or currency rate movement.

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

(i) Interest rate risk

The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. Cash deposit balances are held on variable rate bank accounts yielding nil as at 31 December 2019 (2018: nil).

The Company has a bank debt facility of £125,000,000 of which £13,750,000 was drawn down as at 31 December 2019 (2018: debt facility of £125,000,000, of which £17,500,000 was drawn down). Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had been 1% point higher at 31 December 2019, the impact on the profit or loss and therefore Shareholders' funds would have been negative £137,500 per annum (2018: negative £175,000). If LIBOR and the bank base rate had been 0.75% point lower at 31 December 2019, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £103,125 per annum (2018: positive £43,750 at 0.25%). There would be no direct impact on the portfolio valuation. The calculations are based on the bank facility drawn down and cash balances as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant. The level of change is considered to be a reasonable illustration based on current market conditions.

Notes to the Financial Statements

19 Financial instruments (continued)

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities. These securities are all Level 1 assets, actively traded and, whilst less liquid than larger quoted companies, the portfolio is well diversified by both numbers of holdings and industry sector. Short term funding flexibility can be achieved through the use of bank debt facilities. The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the bank debt facility.

(iii) Credit risk

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

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 Secretaries and the Depository monitor the Company's risk by reviewing Northern Trust's credit ratings and their internal control report. Cash at bank is held with reputable banks with acceptable external credit ratings. Outstanding investment income is reconciled to receipts on payment date.

The exposure to credit risk at the year-end comprises the following.

	2019	2018
	£'000	£'000
Investment income receivable	2,777	3,187
Cash at bank	187	59
Total	2,964	3,246

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the investment managers in pursuance of the investment objective. Further information on the investment portfolio is set out in the Managers' Report on pages 9 to 14. It is not the Managers' policy to use derivatives or hedging instruments to manage market price risk.

If the investment portfolio valuation fell by 10% at 31 December 2019, the impact on the profit or loss and therefore Shareholders' funds would have been negative £141.7m (2018: negative £116.8m). If the investment portfolio valuation rose by 10% at 31 December 2019, the impact on the profit or loss and therefore Shareholders' funds would have been positive £141.7m (2018: positive £116.8m). The calculations are based on the portfolio valuation as at the respective balance sheet dates, are not representative of the year as a whole and assume all other variables remain constant. The level of change is considered to be a reasonable illustration based on historic stockmarket volatility.

As at 31 December 2019, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio consisted of investments, other than one (2018: two) investment that has been fair valued at £nil, valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Maturity profile of the Company's financial liabilities

As at 31 December 2019

(All in £'000)	Due or due no later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities:						
Bank debt facility	67	–	13,750	–	–	13,817
Unamortised costs on bank debt facility	–	–	(29)	–	–	(29)
Other creditors	–	86	–	–	–	86
Total liabilities	67	86	13,721	–	–	13,874

Notes to the Financial Statements

19 Financial instruments (continued)

As at 31 December 2018

(All in £'000)	Due or due no later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities:						
Bank debt facility	210	–	–	17,500	–	17,710
Unamortised costs	–	–	–	(91)	–	(91)
Other creditors	53	46	–	–	–	99
Total liabilities	263	46	–	17,409	–	17,718

Cash flows payable under financial liabilities by remaining contractual maturities

As at 31 December 2019

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	–	189	13,910	–	–	14,098
Other creditors	–	153	–	–	–	153
Total	–	342	13,910	–	–	14,251

As at 31 December 2018

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	–	196	599	17,864	–	18,659
Other creditors	–	309	–	–	–	309
Total	–	505	599	17,864	–	18,968

Capital Management Policies and Procedures

The Company's capital management objectives are to support the Company's objective and to ensure that the Company will be able to continue as a going concern.

This is achieved through the appropriate balance of equity capital and gearing. Further details can be found in the Strategic Report. The Company does not have any externally imposed capital requirements other than the covenant on its bank debt facility as set out in Note 12.

20 Related Party Transactions

Directors' fees and their shareholdings are detailed in the Directors' Remuneration Report on pages 33 and 34. There were no matters requiring disclosure under s412 of the Companies Act 2006.

21 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2019 (2018: nil).

22 Company information

Aberforth Smaller Companies Trust plc is a closed-ended investment company, registered in Scotland No SC126524, with its Ordinary Shares listed on the London Stock Exchange. The address of the registered office is 14 Melville Street, Edinburgh, EH3 7NS.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-ninth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 3 March 2020 at 2.30 p.m. for the following purposes:

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

1. That the Report and Financial Statements for the year ended 31 December 2019 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2019 be approved.
3. That the Directors' Remuneration Policy be approved.
4. That a final dividend of 22.00p per share and a special dividend of 4.00p per share be approved.
5. That Richard Davidson be re-elected as a Director.
6. That Richard Rae be re-elected as a Director.
7. That Julia Le Blan be re-elected as a Director.
8. That Paula Hay-Plumb be re-elected as a Director.
9. That Martin Warner be re-elected as a Director.
10. To re-appoint Deloitte LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
11. That the Audit Committee be authorised to determine the remuneration of the Independent Auditor for the year to 31 December 2020.
12. That the Company continues to manage its affairs as an investment trust (as defined by Section 1158 of the Corporation Tax Act 2010).

To consider and, if thought fit, pass the following Special Resolution:

13. That pursuant to and in accordance with its Articles of Association and in substitution for any existing authority, the Company be and is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 1p each in the capital of the Company ("Shares"), provided that:
 - (a) the maximum number of Shares hereby authorised to be purchased shall be 13,421,006 (or, if less, 14.99% of the issued share capital of the Company on the date on which this resolution is passed);
 - (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2021 or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2021, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

Aberforth Partners LLP, *Secretaries*

29 January 2020

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 close of business on 28 February 2020 (or, if the Annual General Meeting is adjourned, at close of business 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 a vote electronically, log on to the Registrar's web site at www.signalshares.com and follow the instructions on screen.

A member 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 Registrar of the Company. If a member submits 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 authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrar of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned 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 3 March 2020 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, Link Asset Services (CREST Participant ID: RA10), 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 Annual General Meeting.

4. Total Voting Rights

As at 29 January 2020, the latest practicable date prior to publication of this document, the Company had 89,533,066 Ordinary Shares in issue with a total of 89,533,066 voting rights.

5. Information on the Company's website

In accordance with section 311A of the Companies Act 2006, this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the Annual General Meeting 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 www.aberforth.co.uk.

6. 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.

7. Audit concerns

The members of the Company may require the Company (without payment) to publish, on the website, a statement (which is also to be passed to the Auditor) setting out any matter relating to the audit of the Company's accounts, including the Auditor's 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 and must state the member's full name and address and be sent to the registered address of the Company.

Shareholder Information

Introduction

Aberforth Smaller Companies Trust plc is an Investment Trust whose shares are traded on the London Stock Exchange.

Shareholder register enquiries

All administrative enquiries relating to shareholders such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or requests to be placed on a mailing list should be addressed to the Company's Registrar:

Shareholder Solutions, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU.

Tel: 0871 664 0300 (calls cost 12p per minute plus network extras, lines are open 9.00 am to 5.30 pm Monday to Friday).

Email: enquiries@linkgroup.co.uk. Website: www.linkassetservices.com.

Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's Registrar, whose address is given above, to pay them directly into a bank account; tax vouchers are then mailed to shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. The Company also operates a Dividend Re-investment Plan to allow shareholders to use their cash dividends to buy shares easily and at a low cost via the Company's Registrar from whom the necessary forms are available.

Sources of further information

Shareholders can find up-to-date information on the Company on the Managers' website at www.aberforth.co.uk. This includes items such as the latest net asset value, share price and stock exchange announcements, as well as information relating to the portfolio, management fee and dividend history. Other websites containing useful information on the Company include www.trustnet.com, www.theaic.co.uk and www.ft.com. The prices of the Ordinary shares are also quoted daily in the Financial Times, The Times and The Scotsman newspapers.

How to invest

The Company's Ordinary Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker, by asking a professional adviser to do so, or through most banks. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, Savings Schemes or Pension Plans.

Security Codes (Ordinary Shares)

SEDOL	Bloomberg	Reuters	GIIN	Legal Entity Identifier
0006655	ASL LN	ASL.L	U6SSZS.99999.SL.826	213800GZ9WC73A92Q326

Continuation Vote

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the Annual General Meeting to be held in 2020 (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

Retail Distribution/NMPI Status

The Company's shares are intended for UK investors including retail investors, professionally advised private clients and institutional investors who are seeking exposure to smaller companies in the United Kingdom, and who understand and are willing to accept the risks of exposure to equities.

The Company currently conducts its affairs, and intends to continue to conduct its affairs, so that its Ordinary 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 pooled investment (NMPI) products. The Company's Ordinary Shares are excluded from the FCA's restrictions that apply to NMPI products because they are shares in an investment trust.

Please note that past performance is not a guide to the future. Your investment may be at risk as the value of investments may go down as well as up and is not guaranteed. Therefore you may not get back the amount originally invested.

Individual Savings Accounts (ISA) Status

The Company's Ordinary Shares are eligible for inclusion in the "Stocks and Shares" component of an ISA.

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 can be obtained by contacting The Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY; Website: www.theaic.co.uk; Tel: 020 7282-5555.

Shareholder Information

Financial Calendar

Dividends in respect of the year ended 31 December 2019

	Interim	Special	Final
Rate per Share:	10.00p	4.00p	22.00p
Ex Dividend:	8 August 2019	6 February 2020	6 February 2020
Record date:	9 August 2019	7 February 2020	7 February 2020
Pay date:	30 August 2019	6 March 2020	6 March 2020

Half Yearly Report	Published	late July
Annual Report and Financial Statements	Published	late January
Annual General Meeting		3 March 2020
Publication of Net Asset Values		Daily (via the Managers' website)

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed Aberforth Partners LLP as its alternative investment fund manager (AIFM). In accordance with the AIFMD, information in relation to the Company's leverage is required to be made available to Shareholders. The Company's maximum and actual leverage levels as at 31 December 2019 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

Leverage Exposure (refer to the Glossary)	2019		2018	
	Commitment Method	Gross Method	Commitment Method	Gross Method
Maximum limit	2.00:1	2.00:1	2.00:1	2.00:1
Actual	1.01:1	1.01:1	1.01:1	1.01:1

Furthermore, in accordance with the Directive, the AIFM's remuneration policy and the numerical disclosures in respect of the AIFM's relevant reporting period (year ended 30 April 2019) are available on request from Aberforth Partners.

Automatic Exchange of Information

The OECD Common Reporting Standard for Automatic Exchange of Financial Account information ('Common Reporting Standard') requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly Aberforth Smaller Companies Trust plc will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

All new shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's *Quick Guide: Automatic Exchange of Information – information for account holders* <https://www.gov.uk/government/publications/exchange-of-information-account-holders>.

Beware of Share Fraud

Investment scams are designed to look like genuine investment opportunities. You might have been contacted by fraudsters if you have been contacted out of the blue, promised tempting returns and told the investment is safe, called repeatedly or told the offer is only available for a limited time. Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These may be from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares. Shareholders may also be advised that there is an imminent offer for the Company, and the caller may offer to buy shares at significantly above the market price if an administration fee is paid. Shareholders should treat all such approaches with caution.

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

Shareholder Information

Glossary of UK GAAP Measures

Net Asset Value, also described as Shareholders' Funds, is the value of total assets less all liabilities. The Net Asset Value, or NAV, per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

Gearing represents the amount by which total investments exceed Shareholders' Funds, expressed as a percentage of Shareholders' Funds. If stockmarkets rise, gearing can increase the Company's returns, but, if they fall, losses will be greater. If the amount calculated is a negative percentage then total investments are less than Shareholders' Funds.

Glossary of Alternative Performance Measures

Active share ratio is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the 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).

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend. Further information on the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies), can be found on page 4.

Discount is the amount by which the stockmarket price per Ordinary Share is lower than the Net Asset Value, or NAV, per Ordinary Share. The discount is normally expressed as a percentage of the NAV per Ordinary Share. The opposite of a discount is a premium.

Dividend Reinvestment Factor is calculated on the assumption that dividends paid by the Company were reinvested into Ordinary Shares of the Company at the NAV per Ordinary Share or share price, as appropriate, on the day the Ordinary Shares were quoted ex dividend.

Leverage, for the purposes of the AIFM Directive, is any method which increases the Company's exposure to stockmarkets whether through borrowings, derivatives or any other means. It is expressed as a ratio of the Company's exposure to its NAV. 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. ASCoT has no hedging or netting arrangements.

Net Asset Value Total Return represents the theoretical return on NAV per Ordinary Share, assuming that dividends paid to shareholders were reinvested at the NAV per Ordinary Share at the close of business on the day the shares were quoted ex dividend (see note 16 on page 51).

Ongoing Charges represent the total cost of investment management fees and other operating expenses of £9,567,000 (2018: £10,814,000), as disclosed in the Income Statement, as a percentage of the average published net asset value £1,244,624,000 (2018: £1,366,495,000) over the period, and are calculated in accordance with the guidelines issued by the AIC.

Portfolio Turnover is calculated by summing the lesser of purchases and sales over a one year period divided by the average portfolio value for that period.

Share Price Total Return represents the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the Ordinary Shares of the Company at the close of business on the day the shares were quoted ex dividend. The share price as at 31 December 2019 was 1,540.00p (2018: 1,138.00p) and dividends, which went ex dividend during the year (see note 8 on page 49) were 38.5p (2018: 35.95p). The dividend reinvestment factor was 1.032754 (2018: 1.028039). The share price total return was therefore 39.8% (2018: -11.8%), being the percentage derived from the closing share price, adjusted by the dividend reinvestment factor, divided by the closing share price at the previous year end.

Corporate Information

Directors

Richard Davidson (Chairman)
Paula Hay-Plumb
Julia Le Blan
Richard Rae
Martin Warner

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

14 Melville Street
Edinburgh EH3 7NS
Registered in Scotland No. SC 126524

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
BR3 4TU

Shareholder enquiries:
Tel: 0871 664 0300
(Calls cost 12p per minute plus network extras)
enquiries@linkgroup.co.uk
www.linkassetservices.com

Share Portal:
www.signalshares.com

Solicitors and Sponsors

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

Bankers

The Royal Bank of Scotland International Limited
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London EC2M 4RB

Custodian

The Northern Trust Company
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Canary Wharf
London E14 5NT

Independent Auditor

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Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Depository

NatWest Trustee & Depository Services Limited
Drummond House
1 Redheughs Avenue
Edinburgh EH12 9RH

