Aberforth Smaller Companies Trust plc

Annual Report and Financial Statements

31 December 2017

Registered in Scotland number SC126524

Contents

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 17 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. Further information can be found on page 19.

Total Return Performance

Year to 31 December 2017

	%
Net Asset Value per Ordinary Share[2]	**22.1**
Numis Smaller Companies Index (excl. Investment Companies)	**19.5**
Ordinary Share Price[2]	**22.6**

Financial Highlights

	31 December 2017	31 December 2016	% Change
Shareholders' Funds[1]	**£1,436m**	£1,220m	17.7
Market Capitalisation[2]	**£1,233m**	£1,047m	17.8
Actual Gearing employed[1]	**0.3%**	2.7%	N/A
Ordinary Share net asset value[1]	**1,543.72p**	1,292.57p	19.4
Ordinary Share price[2]	**1,326.00p**	1,109.00p	19.6
Ordinary Share discount[2]	**14.1%**	14.2%	N/A
Revenue Return per Ordinary Share[1]	**41.59p**	36.93p	12.6
Dividends per Ordinary Share[1]	**35.5p**	30.10p	17.9
Return attributable to equity shareholders per Ordinary Share[1]	**279.32p**	65.82p	324.4
Ongoing Charges[2]	**0.76%**	0.80%	N/A
Portfolio Turnover[2]	**21.9%**	17.3%	N/A

[1] UK GAAP Measure [2] Alternative Performance Measure (refer to glossary on page 56)

Absolute Performance over past year
(figures are total returns and have been rebased to 100 at 31 December 2016)

Chairman's Statement

Review of 2017 performance

Confounding many a sceptic, 2017 proved to be a positive year for returns from UK smaller companies. The FTSE 100 Index gave a total return of 11.9%, while the return of the FTSE All-Share Index, which is heavily weighted towards large companies, was 13.1%. By comparison, the Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)), the Company's benchmark, produced a return of 19.5%. The Company's net asset value total return was 22.1%, which reflects the return attributable to equity shareholders of 279.32p (2016: 65.82p), together with the effect of dividends received by them and reinvested. The share price generated a total return of 22.6%.

The Managers' Report expands in more detail on 2017's performance.

Dividends

The Board remains committed to a progressive dividend policy. In this context, the Board is pleased to propose a final ordinary dividend of 19.75p. Total ordinary dividends of 28.80p for 2017 represent a 5.3% increment when compared with 2016 and a level 51.6% above the 19.0p that was declared for 2010 in the immediate aftermath of the financial crisis.

I have included 2010 dividend levels and subsequent growth to attempt to bring some context to what has undoubtedly been a golden period for dividends from small UK quoted companies. To put this period into a historical context, long run data from the London Business School for the NSCI (XIC) would suggest dividends since 1955 have grown at 2.7% per annum in real terms.

In 2015 and 2016, alongside the ordinary dividend declared, the Company also paid a special dividend of 2.75p each year, thereby ensuring that the all-important minimum retention test imposed by HMRC was passed. The Board adopted such a strategy to avoid the pitfalls of allowing non-recurring revenue streams to become embedded into the progressive dividend policy, especially since special dividends and non-recurring distributions have been more prevalent following the financial crisis.

In 2017, the Company was once again a beneficiary of special dividends and, in particular, the decision from one of our investee companies to declare five dividends in 2017. This year, the Board will declare a special dividend of 6.70p per share alongside the total ordinary dividend of 28.80p to ensure the retention test is met.

The revenue return for the year was 41.59p (2016: 36.93p) per Ordinary Share. After adjusting for both the final ordinary and special dividends, the Company's revenue reserves will be 59.5p per share, circa 2.1x the ordinary dividend; in 2010, revenue reserves were circa 1.3x the ordinary dividend. Strengthened revenue reserves, and prudent management of the non-recurring revenue streams of recent years, leave the Board optimistic that a progressive dividend policy can be delivered to Shareholders. 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 re-iterate my comments from previous years that the base level for the Company's progressive dividend policy in 2018 is on the total ordinary dividend of 28.80p, i.e. excluding the special dividend.

Share buy-in

At the Annual General Meeting in March 2017, the authority to buy in up to 14.99% of the Company's Ordinary Shares was approved. During the year, 1,404,155 Ordinary Shares (1.5% of the issued share capital) were bought in at a total cost of £18.1m. Consistent with the Board's stated policy, those Ordinary Shares have been cancelled rather than held in Treasury. Once again, the Board will be seeking to renew the buy-in authority at the Annual General Meeting on 1 March 2018.

Within the broader Investment Companies universe, the UK Smaller Companies sub-sector has languished in rating terms, with discounts stuck in the low to mid-teen range. Currently, uncertainty about Brexit and politics appear to be trumping both economics and underlying corporate profitability. Against such a backdrop, 2017 witnessed a higher level of buy-ins than in previous years. At the margin, buy-ins 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 with the Company.

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 27 year history. The £125m facility with The Royal Bank of Scotland 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. The facility continues to provide the Company with access to liquidity for investment purposes and to fund share buy-ins as and when appropriate. In an illiquid, and at times volatile, asset class such as small UK quoted companies, having access to immediate funds through a credit facility provides the Managers with enhanced flexibility.

Chairman's Statement

Board changes

David Jeffcoat, who has been a Director since July 2009 and Chairman of the Audit Committee since 2011, will not be standing for re-election at the forthcoming Annual General Meeting. David has made a great contribution to the Board, and his colleagues and the Managers will miss his incisive questioning. Shareholders can be grateful for his contribution over the past nine years. The Board wishes him all the very best for the future.

A recruitment process, being run by the Board, is well advanced.

Outlook

Since becoming Chairman in October 2014, my January statement to Shareholders has regularly referred to the uncertain political environment. In this relatively short period, the Company has operated against a backdrop of two referendums and two general elections. Regrettably, 2018 feels like more of the same as a minority government seeks to make progress with the Brexit negotiations.

In economic terms, the environment has been more conducive as, despite a slowing UK economy, we have witnessed an acceleration and synchronisation of global growth – indeed, one might regard the biggest fear as being the extent of the consensus about the supportive conditions for further progress. Around the world, we have seen several central banks shift gears and raise interest rates. In financial markets, this has fuelled the debate between inflation and deflation to which I referred in last year's statement. As a consequence, the tension between equity and bond valuations remains at the forefront of asset allocators' minds. As with political uncertainties, I would envisage such tensions to be resolved over several years but their significance should not be underestimated for investment managers such as Aberforth Partners who follow a value investing style.

Over the past 12 months, the Company has produced a good result despite difficult conditions for the value investing style. As an asset class, small UK quoted companies have perhaps missed out, owing to politics and Brexit, on the sort of re-rating witnessed in the broader financial markets. As represented by the NSCI (XIC), they look to be selling at around a 34% price/earnings discount to their larger brethren. Since the Company's formation in 1990, only the period during and in the aftermath of the Long Term Credit Management crisis in 1998 has this discount been meaningfully wider. Driven by the Managers' value investing style, the Company's portfolio provides additional valuation support.

There seems always to be the opportunity to comment on regulation, although in many years I resist the temptation. This year, however, sees the noteworthy introduction of the Key Information Document under the Packaged Retail and Insurance-based Investment Products Regulation. While this regulation is undoubtedly well intended, I share the concerns expressed by others that it may be some time before these rules achieve their intended objective, not least until the same rules apply consistently to open ended funds. I look forward to the year when no comment on the regulatory environment is possible.

The Board looks forward with cautious optimism, cognisant of the uncertain times prevailing but reassured by the consistency of approach and professionalism of the Managers.

Finally, the Board very much welcomes the views of Shareholders and we are available to talk to you directly. My email address is noted below and I extend my thanks to those of you who have been in touch with me over the past year.

Paul Trickett
Chairman
26 January 2018
paul.trickett@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 2018 (the date of the last annual index rebalancing), the index included 350 companies, with an aggregate market capitalisation of £169 billion. Its upper market capitalisation limit was £1.5 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities will become candidates for sale.

Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies. The Company may, at time of purchase, invest up to 15% of its assets in any one security. However, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis.

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except 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 or in any securities issued by investment trusts or investment companies, with the exception of real estate investment trusts that are eligible for inclusion in the NSCI (XIC).

The Managers aim to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company may 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 Company currently has a £125m three year bank facility in place and the level of gearing has, during 2017, ranged from nil to 3.8%. Further details can be found in note 13 to the Financial Statements.

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 will usually be 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 weight of each holding within 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 will pay 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.

Principal Risks

The Board carefully considers 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 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 will typically differ from the performance of the benchmark and will be influenced by 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.*

(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. The Board intends to continue to buy in shares as stated in the Chairman's Statement.*

(iii) Gearing risk – in rising markets, gearing will enhance returns; however, in falling markets the gearing effect will adversely affect returns to Shareholders. *The Board and the Managers consider the gearing strategy and associated risk on a regular basis.*

(iv) Reputational risk – *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. The Board closely monitors political developments and, in particular, is mindful of the continuing uncertainty following the UK referendum result to leave the EU.*

Viability Statement

The Directors have assessed the viability of the Company over the five years to December 2022, 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 in 2020.

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 numbers of holdings and industry sector. The Directors determined that a five year period to December 2022 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 each day. A glossary of these Alternative Performance Measures can be found on page 56.

Historic Total Returns

	Discrete Annual Returns (%)		
Period	NAV	Index	Share Price
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
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2017	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2015	13.7	15.2	8.4	29.2	32.7	17.4
3 years from 31 December 2014	12.5	13.7	10.2	42.4	46.8	33.7
4 years from 31 December 2013	9.0	9.6	7.6	41.4	44.1	33.8
5 years from 31 December 2012	16.6	14.6	16.7	115.4	97.3	116.8
6 years from 31 December 2011	19.0	17.0	20.9	184.1	156.4	211.9
7 years from 31 December 2010	13.7	12.8	14.3	145.8	133.0	154.3
8 years from 31 December 2009	15.2	14.7	15.3	211.2	199.4	212.3
9 years from 31 December 2008	18.2	19.1	19.5	349.4	381.2	397.3
10 years from 31 December 2007	10.5	11.0	11.9	171.2	184.7	206.6
15 years from 31 December 2002	13.6	14.2	12.9	576.6	637.0	518.9
20 years from 31 December 1997	12.6	10.5	12.6	968.9	632.4	976.2
27.1 years from inception on 10 December 1990	13.9	11.5	13.4	3,296.7	1,788.6	2,876.0

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 p	Ongoing Charges %	Gearing %
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
2008	437.7	351.25	19.7	22.75	19.00	0.94	9.5
2007	743.9	587.00	21.1	18.38	15.20	0.86	–

Key Performance Indicators

Ten Year Investment Summary

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2007)

Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2007)

Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2007)

Premium/Discount
(being the difference between Share Price and NAV)

Managers' Report

Introduction

ASCoT rode the wave of rising equity valuations around the world in 2017 and delivered a strong performance in both absolute and relative terms. Its NAV total return was 22.1%, which may be compared with 19.5% for its benchmark, the NSCI (XIC), and with 13.1% for the FTSE All-Share index, which is a gauge of the performance of larger companies.

All of ASCoT's relative gains were secured in the first half of the year: as the year progressed, conditions became more hostile to the value investor, details of which are provided in the Investment Performance section of this report. That the value style should have encountered such headwinds is at one level surprising. One of the most notable developments of 2017 was the synchronisation of economic recovery around the globe, with all major economies enjoying GDP growth for the first time since the financial crisis. While the rate of progress of the US economy eased, tax reform offers the prospect of renewed impetus. Meanwhile, Chinese activity benefited from a bout of stimulus and, perhaps more significantly, the Eurozone returned to growth as the impact of quantitative easing was finally felt. The broad trend of improvement was seized upon promptly by the equity markets and has been termed the "reflation trade".

Its sustainability was, however, brought into question by the words and actions of the world's central banks, apparently keen to display their inflation-fighting credentials. Three interest rate rises in the US have been accompanied by commentary on how and when the Federal Reserve's balance sheet, bloated by quantitative easing, might be run down. To date, the Eurozone has seen no action but plenty of rhetoric, while the UK has witnessed its first interest rate rise for ten years. It is to be hoped that the central banks are not too focused on fighting yesterday's war and that they have judged the risks of runaway economic activity and inflation accurately. In this regard, a bit more nervousness on the part of government bond markets might have been encouraging: yields in 2017 were essentially unchanged and thus remain at extremely low levels in a historical context. The behaviour of bond investors suggests that the "reflation trade" is merely another of those false dawns to have punctuated the period since the financial crisis and that underlying economic issues of debt and demographics are so intractable as to condemn the world to very low rates of economic growth for years to come.

Such prospects are some of the factors contributing to the emergence of reactionary populism around the globe, though, again, bond investors appear little concerned by the inflationary effects of populist policies. To be fair, a useful test-case of populism, the UK's EU referendum, has hardly been a cause of concern for bond markets. There was no implosion in the immediate aftermath of the vote, but the second order effects of sterling's devaluation are now permeating the economy: inflation is picking up, real wages are coming back under pressure and to this extent the outlook for real growth is deteriorating. Though GDP growth forecasts should be taken with a pinch of salt, the trajectory that has taken the UK from the fastest growing G7 nation in 2014 to the slowest in 2017 is hardly encouraging. Meanwhile, the government is in a difficult position, undermined by the outcome of the general election, riven ideologically by differing views on the EU and inevitably focused on divorce negotiations.

Against this complicated background, investment in small UK quoted companies in 2017 was remarkably straightforward. Leaving aside for now a small number of highly valued growth stocks, the most important issue was the split of exposure to those companies earning their profits overseas and those that rely on the domestic economy. To have had a lot of the former, which benefited from the weak pound and saw their profits expand to historically high levels, was a significant boost to investment returns. ASCoT was a beneficiary and its experience is described in the Investment Performance section of this report.

Investment Performance

ASCoT's NAV total return in 2017 was 22.1%; the NSCI (XIC)'s was 19.5%. The table below analyses the difference between these two figures, while the subsequent paragraphs provide more detail on how ASCoT's performance was achieved.

For the 12 months ended 31 December 2017	Basis points
Stock selection	412
Sector selection	(70)
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 22 basis points)	**342**
Movement in mid to bid price spread	(47)
Cash/gearing	25
Purchase of ordinary shares	23
Management fee	(79)
Other expenses	(6)
Total attribution based on bid prices	**258**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 22.08%; Benchmark Index = 19.50%; difference is 2.58% being 258 basis points).

Managers' Report

Style

The dynamics behind the "reflation trade" of 2017 should have been conducive to a strong relative performance from the value style. While this was indeed the case in the early months of the year, the growth style fought back as government bond yields failed to respond. For the year as a whole, analysis of data from both the London Business School (LBS) and Style Research points to significant headwinds for the value style; indeed, the LBS model suggests it was the ninth worst year since 1955. In this context, ASCoT's positive relative performance might be considered so surprising as to call into question the Managers' dedication to value investment. However, two other factors – size and sectors described below – offered mitigation and some strong individual stock selection numbers, as illustrated in the table above, helped the portfolio's performance exceed that of the benchmark. The experience of 2017 also usefully illustrates the difference of approach between the third-party models and Aberforth in determining value: the former use only price to book, while the Managers' methodology encompasses other valuation metrics, notably the ratio of enterprise value to earnings before interest, tax and amortisation. Nevertheless, the chance of ASCoT overcoming a repeat of such adverse conditions for the value style is not high.

Size

The size factor within the NSCI (XIC) was a slight boost to ASCoT's returns in 2017. The NSCI (XIC) represents the bottom tenth of the UK stockmarket by value and includes companies with market capitalisations up to around £1.5 billion. It thus overlaps with the FTSE 250 index. At the start of 2017 this overlap represented 62% of the value of the NSCI (XIC). In 2017, the performance of the FTSE 250 stocks within the NSCI (XIC), its larger constituents, was very slightly behind that of its smaller constituents. This was to ASCoT's advantage, albeit to a modest degree, since 59% of its portfolio was invested in "smaller small" companies at the start of the 2017. The reason for this disposition is the valuation premium accorded to larger companies and set out in the Valuation section of this report. While the superior returns from "smaller smalls" reduced their valuation advantage in 2017, it remains wide and with the bottom-up prospects for these businesses still positive, the portfolio enters 2018 in a familiar shape with regard to size.

Sectors

The crucial sector issue in 2017 was the divergent performance of overseas and domestic companies. As noted above, relative performance was improved by a comparatively high exposure to those companies earning their money outside the UK. At the start of the year, 47% of the aggregate sales of ASCoT's portfolio holdings was generated overseas, more than the 41% for the NSCI (XIC). As a gauge of the benefit afforded by this positioning, the NSCI (XIC) may be divided into groups of sectors determined by where these sectors earn their money and the performance of these groups may be compared. The overseas group enjoyed a total return of 32% in 2017, whereas the domestic group's return was 19%. Sterling's weakness after the EU referendum explains the gap: the overseas group benefited from the translation of profits at more favourable exchange rates and almost two thirds of the companies therein have seen profit expectations for 2017 raised since the referendum; in contrast, the domestic group has had to contend with the impact of sterling on inflation and real wages, so that only one third of its companies has enjoyed higher estimates.

The net effect has been a widening valuation premium of overseas exposed companies to domestics, even though sterling itself was unchanged on a trade weighted basis in 2017. At the margin, this has motivated the Managers to bias purchases through the latter part of the year to the domestics, always taking into account the likelihood of more challenging trading conditions in the UK economy. However, experience suggests that the stockmarket is prone to overreact and when strong businesses with a domestic bias but attractive financial characteristics and defendable market positions are significantly de-rated the Managers are willing to commit capital. So far, this re-orientation of the portfolio, which is consistent with the application of a value investment philosophy, has been modest, with the portfolio at the start of 2018 still generating 46% of its aggregate sales from overseas.

Stocks

In 2017's challenging environment for the value style, the portfolio's exposure to "smaller small" companies and to overseas earners offered some mitigation. However, stock selection also played an important role, as the table at the top of this section makes clear. In last year's Managers' Report, it was argued that "for ASCoT to generate superior returns for its shareholders, getting more investment decisions right than wrong ... probably does the job". While over time the Managers' investment approach and experience can hopefully ensure that this deceptively unambitious target is met, it is fair to state that good fortune played a part in the high stock contribution in 2017. Despite an uptick in profit warnings across the stockmarket as the year progressed, ASCoT encountered few serious declines in share prices and, on the other hand, saw its patience rewarded with unusually large rises in the valuations of some of the long-standing holdings into which capital had been fed steadily over time.

Managers' Report

Additionally, the stockmarket offered several opportunities to take advantage of the de-ratings of previously inherently strong but highly valued businesses whose trading difficulties had precipitated substantial share price falls. While holdings in these businesses were taken with a five year investment horizon, in some cases the actual holding period proved much shorter as trading improved and the stockmarket chose once again to re-rate the prospects of the company in question. When the stockmarket will yield such opportunities in the future is uncertain. What is certain is that there will be years in which, despite the consistent application of the value investment philosophy through a seasoned investment process, stock selection will prove as unrewarding as it was rewarding in 2017.

Corporate activity

With 17 bids for NSCI (XIC) constituents completed or outstanding at the end of the year, M&A activity in 2017 was at a similar level to that of 2016. Both these years undershot the 27 deals that took place in 2015 and it is tempting to attribute some of the slowdown since then to the uncertainties stemming from the EU referendum, even though the weakness of sterling ought to add to the appeal of UK assets to overseas buyers. Of the 17 bid situations, ASCoT held six, though in three cases the announcement of the approach and thus the boost to the share prices came at the end of 2016. Overall, M&A was a very small boost to returns in 2017.

The number of initial public offerings in 2017 was 21, which represents a modest rise on the previous year. ASCoT does not often participate in IPOs but did take part in two of the 2017 deals. In both cases, the Managers judged that the valuation offered sufficient compensation for the informational advantage usually enjoyed by the private equity sellers of the businesses.

Balance sheets

For much of the last ten years, the small UK quoted company universe has been characterised by strong and strengthening balance sheets, which inevitably reflected the impact of the financial crisis on the thinking of company directors. In the last three years, however, there have been indications of less caution. In the case of ASCoT's portfolio, this is manifest in the proportion of the portfolio that is invested in companies with net cash on their balance sheets, which has declined from 35% in 2014 to 21% at the end of 2017. For the Managers, this development is on balance positive, since it is driven by more investment, returns of surplus cash and, though not to be welcomed in every case, acquisitions. Clearly, however, higher leverage brings risks, particularly if it coincides with an economic downturn. Comfort may be derived from the portfolio's bias to businesses with less than two times leverage (net debt divided by earnings before interest, tax, depreciation and amortisation), which was almost 75% at the end of 2017. Those with higher leverage ratios tend to be property companies, though the portfolio always has some exposure to more highly indebted businesses where the potential upside justifies the additional risk.

Income

The table below splits the portfolio's holdings into categories that are determined by each company's most recent dividend announcement. The profile is familiar from similar analyses in recent years: a small minority of dividend cutters, the persistence of several nil payers and a bias to companies that most recently increased their dividends. The "Other" category includes companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year.

Down	Nil payers	No change	Increase	Other
7	13	22	41	3

The portfolio's dividend experience reflects what remains a buoyant backdrop for dividends across the universe of small UK quoted companies. Robust balance sheets and dividend cover of 2.8x for the portfolio, are supportive of further increases, though it would seem likely that the rate of dividend growth across the NSCI (XIC) is moderating from the low double digits of recent years to mid to high single digits. However, in comparison with inflation, this degree of progress remains well above the 62 year average real dividend growth from smaller companies of 2.7%.

Turnover

Portfolio turnover in 2017 was 22%, which is up from 17% in 2016. It is often the case that headline turnover is influenced by situations in which ASCoT is effectively required to sell, notably through an M&A approach or when an investee company grows too large for continued inclusion in the NSCI (XIC). Adjusting for these, underlying turnover in 2017 was 17%, compared with 12% in 2016. This increase was correlated with the improvement in investment performance. Consistent with their value investment philosophy, the Managers strive to rotate capital from holdings that have performed well and are close to their target valuations into companies with depressed valuations and greater upside. This basic dynamic ought to benefit returns, but it can only be put into action if the broad stockmarket is inclined to re-rate ASCoT's holdings, as was the case in 2017.

Managers' Report

Active share

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 end of December the ratio was 77% (2016: 76%).

Valuations

The strength of equity markets in 2017 has seen valuations rise and, as the table below sets out, the universe of small UK quoted companies has participated in this trend. The 14.3x PE of the NSCI (XIC) at the end of December was 6% above its average since 1990 of 13.5x, while the 12.5x PE of ASCoT's portfolio was 4% above its 12.0x long term average. While neither the asset class nor the portfolio is significantly above normal, the same cannot be claimed of large companies. The historical PE of the FTSE All-Share at the end of 2017 was 21.7x, which is 42% above its average since 1990. This PE reflects the implicit expectation of strong profit growth from large companies in coming months, helped by the translation of overseas profits at lower sterling exchange rates, by the restructuring undertaken in recent times by resources companies and by the effect of rising commodity prices on these companies' profits.

	31 December 2017		31 December 2016	
Portfolio Characteristics	ASCoT	NSCI (XIC)	ASCoT	NSCI (XIC)
Number of companies	**86**	**350**	87	349
Weighted average market capitalisation	**£712m**	**£878m**	£617m	£800m
Price earnings ratio or PE (historic)	**12.5x**	**14.3x**	11.3x	12.5x
Dividend yield (historic)	**2.9%**	**2.8%**	3.0%	2.8%
Dividend cover	**2.8x**	**2.5x**	3.0x	2.9x

The following table sets out the forward valuations of ASCoT's portfolio and the tracked universe, which is the set of stocks covered closely by the Managers and represents 97% by value of the NSCI (XIC). The valuation metric – the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA) – is the one favoured by the Managers. As should be expected of a portfolio put together in accordance with a value investment philosophy, ASCoT's holdings are cheaper than the tracked universe as a whole and much cheaper than a subset of 44 growth stocks: at the end of December, the premium of the growth stocks to the portfolio was 74% on the basis of 2018 estimates.

EV/EBITA	2017	2018	2019
ASCoT	12.1x	10.4x	9.0x
Tracked universe (285 stocks)	14.2x	12.8x	11.3x
- 44 growth stocks	21.8x	18.1x	16.0x
- 241 other stocks	13.2x	12.0x	10.6x

The final valuation table highlights a valuation anomaly that has persisted for several years. Despite the superior returns from "smaller small" companies in 2017, the lowest valuations in the UK stockmarket are still accorded to the smallest companies and, as a consequence, ASCoT's exposure to those companies is higher than that of the NSCI (XIC) as a whole. In the Managers' experience, the present relationship is unusual: in the years before the financial crisis, the superior growth of "smaller small" companies tended to be rewarded by higher valuations. However, many investors are today nervous about illiquidity and are reluctant to commit to the stockmarket's smaller denizens. ASCoT's status as a closed end fund allows it to take a longer term view, a strategy that paid off in 2017.

Market capitalisation range:	< £100m	£100-250m	£250-500m	£500-750m	> £750m
Portfolio weight	3%	15%	25%	22%	35%
Tracked universe weight	1%	5%	18%	15%	61%
Tracked universe 2018 EV/EBITA	7.4x	10.3x	11.4x	12.2x	13.9x

Managers' Report

Conclusion & outlook

In broad terms, today's universe of small UK quoted companies can be split into three groups, a framework that has been useful for the majority of time since the financial crisis.

- The first comprises secular growth companies, whose valuations benefit from the low discount rates that encourage investors to extend their investment horizons well beyond historical norms. Decent memories are now required of the last time that capital became effectively costless for growth companies during the TMT boom. This is not to deny the existence of some truly outstanding business franchises among the technology behemoths of the US and China or even, indeed, within the NSCI (XIC). However, experience suggests that capital does not remain costless indefinitely, that many growth businesses are being valued as if they are the next Amazon and that few businesses succeed in retaining high stockmarket valuations for extended periods.
- The second group comprises companies whose growth is low but dependable and that tend to pay out a large proportion of their profits as dividends. Before the financial crisis these would have been described pejoratively as "dull" or "ersatz bonds" and, condemned to low valuations, might have fitted into a value portfolio. However, since the advent of quantitative easing with its suppressive effect on bond yields, the increasingly desperate search for income has seen them re-rated to high valuations.
- The final group is everything else – the rump of companies that are lowly valued, typically cyclical, often reliant on the domestic economy, sometimes illiquid and thus uncomfortable for many investors to own. None of these characteristics means that these are all poor businesses that face an existential threat. Some will undoubtedly fall victim to the forces of disruption and these are to be avoided, unless prevailing valuations exaggerate the rate of decline and offer an opportunity for investment. However, many members of this group boast defendable market positions, volatile but good returns on capital through the cycle and the opportunity to grow though not necessarily year-in-year-out. For better or worse, these are the typical holdings of a small cap value fund just now.

An implication of this characterisation is that the big-picture issues of macroeconomics, government bond yields and politics are at present disproportionately influential on the valuations of the three groups that make up the universe of small UK quoted companies. The uncertainties stemming from the EU referendum play a part, but the more significant influence remains the extraordinary monetary policies that anchor bond yields in many parts of the world at very low levels. As long as this continues to be the case, issues specific to individual businesses are likely to play a secondary role in determining ASCoT's returns, though the experience of 2017 suggests that stock selection can make a difference with the help of some good fortune.

So what might move the world's major bond markets? A year ago, a reasonable response, though one that appeared unlikely to come to pass, might have mentioned a bout of synchronised global growth accompanied by higher inflation, tax cuts for the world's largest economy and monetary tightening. And yet government bond markets are unyielding. Perhaps in the face of a decades-long bull market in bonds, which has only intensified since the financial crisis, more convincing evidence is required and perhaps 2017's "reflation trade" will be condemned to the same fate as 2013's "great rotation". Financial markets certainly remain set up for more of the same: corporate bond spreads are extremely narrow, equity markets are led by a small number of beneficiaries of low rates and, to judge by the world of small UK quoted companies, funds tend to be heavily biased to those favourite stocks. With its commitment to value investment, ASCoT continues to stand apart and in doing so is arguably as relevant as at any point in its 27 year history.

Aberforth Partners LLP
Managers
26 January 2018

Thirty Largest Investments

As at 31 December 2017

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	Vesuvius	52,338	3.6	Metal flow engineering
2	Bovis Homes Group	44,454	3.1	Housebuilding
3	Brewin Dolphin Holdings	39,890	2.8	Private client fund manager
4	FirstGroup	39,102	2.7	Bus & rail operator
5	Coats Group	38,497	2.7	Manufacture of threads
6	Vitec Group	34,637	2.4	Photographic & broadcast accessories
7	Keller	32,480	2.3	Ground engineering services
8	Urban&Civic	32,375	2.3	Property - investment & development
9	Grainger	31,784	2.2	Property - residential rentals
10	TT Electronics	31,490	2.2	Sensors & other electronic components
	Top Ten Investments	**377,047**	**26.3**	
11	Huntsworth	31,059	2.2	Public relations
12	Robert Walters	30,053	2.1	Recruitment
13	Computacenter	29,859	2.1	IT services
14	RPS Group	28,082	2.0	Energy & environmental consulting
15	Just Group	26,480	1.8	Individually underwritten annuities
16	Senior	26,427	1.8	Aerospace & automotive engineering
17	Nostrum Oil & Gas	26,393	1.8	Oil & gas exploration and production
18	Future	25,841	1.8	Special interest consumer publisher
19	Restaurant Group	25,230	1.8	Restaurant operator
20	Northgate	25,025	1.7	Van rental
	Top Twenty Investments	**651,496**	**45.4**	
21	Wincanton	24,817	1.7	Logistics
22	Bodycote	24,774	1.7	Engineering - heat treatment
23	Forterra	24,106	1.7	Manufacture of bricks
24	Spirent Communications	23,715	1.7	Telecoms test equipment
25	Essentra	22,429	1.6	Filters & packaging products
26	Hogg Robinson Group	22,313	1.5	Travel & expense management
27	Speedy Hire	22,188	1.5	Plant hire
28	EnQuest	21,586	1.5	Oil & gas exploration and production
29	International Personal Finance	20,588	1.4	Home credit provider
30	De La Rue	19,831	1.4	Bank note printer
	Top Thirty Investments	**877,843**	**61.1**	
	Other Investments (56)	562,653	39.2	
	Total Investments	**1,440,496**	**100.3**	
	Net Liabilities	(4,854)	(0.3)	
	Total Net Assets	**1,435,642**	**100.0**	

Investment Portfolio

As at 31 December 2017

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)
Oil & Gas Producers	**56,719**	**3.9**	**2.6**
EnQuest	21,586	1.5	
Hardy Oil & Gas	1,120	0.1	
Nostrum Oil & Gas	26,393	1.8	
Soco International	7,620	0.5	
Oil Equipment, Services & Distribution	**10,252**	**0.7**	**1.1**
Gulf Marine Services	10,252	0.7	
Chemicals	**6,953**	**0.5**	**1.7**
Carclo	6,953	0.5	
Industrial Metals & Mining	**0**	**–**	**–**
International Ferro Metals[1]	0	–	
Mining	**23,972**	**1.7**	**2.5**
Anglo Pacific Group	18,730	1.3	
Gem Diamonds	5,242	0.4	
Kenmare Resources Warrants 2019[2]	0	–	
Construction & Materials	**72,675**	**5.1**	**4.9**
Eurocell	16,089	1.1	
Forterra	24,106	1.7	
Keller	32,480	2.3	
Aerospace & Defence	**33,122**	**2.3**	**2.6**
Senior	26,427	1.8	
Ultra Electronics Holdings	6,695	0.5	
General Industrials	**99,207**	**6.9**	**0.9**
Coats Group	38,497	2.7	
Low & Bonar	8,372	0.6	
Vesuvius	52,338	3.6	
Electronic & Electrical Equipment	**50,693**	**3.5**	**2.1**
Morgan Advanced Materials	19,203	1.3	
TT Electronics	31,490	2.2	
Industrial Engineering	**71,375**	**4.9**	**2.1**
Bodycote	24,774	1.7	
Castings	11,964	0.8	
Vitec Group	34,637	2.4	
Industrial Transportation	**24,817**	**1.7**	**2.3**
Wincanton	24,817	1.7	
Support Services	**214,259**	**14.9**	**11.3**
Capital Drilling	2,370	0.2	
Connect Group	13,611	0.9	
De La Rue	19,831	1.4	
Essentra	22,429	1.6	
Hogg Robinson Group	22,313	1.5	
Management Consulting Group	2,835	0.2	
Menzies (John)	8,208	0.6	
Northgate	25,025	1.7	
Robert Walters	30,053	2.1	
RPS Group	28,082	2.0	
SIG	17,314	1.2	
Speedy Hire	22,188	1.5	
Automobiles & Parts	**–**	**–**	**0.8**
Beverages	**–**	**–**	**0.7**

Investment Portfolio

As at 31 December 2017

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)
Food Producers	**20,791**	**1.4**	**2.8**
Devro	530	–	
R.E.A. Holdings	7,180	0.5	
Bakkavor Group	9,048	0.6	
Greencore Group	4,033	0.3	
Household Goods & Home Construction	**44,454**	**3.1**	**3.5**
Bovis Homes Group	44,454	3.1	
Leisure Goods	**7,883**	**0.5**	**0.9**
Games Workshop Group	7,883	0.5	
Personal Goods	**–**	**–**	**1.6**
Health Care Equipment & Services	**–**	**–**	**1.9**
Pharmaceuticals & Biotechnology	**16,005**	**1.1**	**2.0**
Vectura Group	16,005	1.1	
Food & Drug Retailers	**19,478**	**1.4**	**1.0**
McColl's Retail Group	19,478	1.4	
General Retailers	**78,393**	**5.6**	**6.1**
Carpetright	8,400	0.6	
DFS Furniture	11,145	0.8	
Dunelm Group	11,329	0.8	
Halfords Group	12,606	0.9	
N Brown Group	12,971	0.9	
Pendragon	12,233	0.9	
Topps Tiles	9,709	0.7	
Media	**77,539**	**5.4**	**4.3**
Centaur Media	6,446	0.4	
Future	25,841	1.8	
Huntsworth	31,059	2.2	
Trinity Mirror	12,585	0.9	
Wilmington Group	1,608	0.1	
Travel & Leisure	**137,452**	**9.7**	**7.8**
Air Partner	4,314	0.3	
ei group	10,146	0.7	
FirstGroup	39,102	2.7	
Flybe Group	8,807	0.6	
Go-Ahead Group	19,480	1.4	
Mitchells & Butlers	18,050	1.3	
Restaurant Group	25,230	1.8	
Stagecoach Group	12,323	0.9	
Fixed Line Telecommunications	**8,963**	**0.6**	**1.8**
KCOM Group	8,963	0.6	
Electricity	**–**	**–**	**0.7**
Banks	**–**	**–**	**3.5**
Nonlife Insurance	**6,635**	**0.5**	**1.8**
Sabre Insurance Group	6,635	0.5	
Life Insurance	**33,142**	**2.3**	**0.4**
Hansard Global	6,662	0.5	
Just Group	26,480	1.8	
Real Estate Investment & Services	**83,440**	**5.8**	**5.7**
Grainger	31,784	2.2	
U and I Group	19,281	1.3	
Urban&Civic	32,375	2.3	

Investment Portfolio

As at 31 December 2017

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)
Real Estate Investment Trusts	**35,139**	**2.4**	**5.4**
Hansteen Holdings	14,010	1.0	
McKay Securities	19,068	1.3	
Capital & Regional	2,061	0.1	
Financial Services	**94,571**	**6.5**	**8.3**
Brewin Dolphin Holdings	39,890	2.8	
Charles Stanley Group	13,424	0.9	
CMC Markets	5,921	0.4	
International Personal Finance	20,588	1.4	
Non-Standard Finance	14,748	1.0	
Software & Computer Services	**76,306**	**5.3**	**4.0**
Computacenter	29,859	2.1	
Microgen	2,689	0.2	
RM	19,081	1.3	
SDL	18,466	1.3	
Servelec Group	6,211	0.4	
Technology Hardware & Equipment	**36,261**	**2.6**	**0.9**
Laird	12,546	0.9	
Spirent Communications	23,715	1.7	
Investments as shown in the Balance Sheet	**1,440,496**	**100.3**	**100.0**
Net Liabilities	(4,854)	(0.3)	
Total Net Assets	**1,435,642**	**100.0**	**100.0**

[1] Listing suspended.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2018.

Summary of Material Investment Transactions

For the year ended 31 December 2017

Purchases	Cost £'000	Sales	Proceeds £'000
Mitchells & Butlers	16,090	e2v technologies	36,729
Stagecoach Group	15,621	Paragon Banking Group	35,194
Non-Standard Finance	15,525	Games Workshop Group	26,602
Forterra	12,997	Ladbrokes Coral	22,106
Bovis Homes Group	11,007	Renewi	20,670
Essentra	10,933	John Laing Group	19,689
ei group	10,009	Hilton Food Group	16,942
Dunelm Group	9,942	Microgen	16,832
Restaurant Group	9,469	Novae Group	14,958
Servelec Group	9,382	NCC Group	14,117
SIG	9,065	Hansteen Holdings	13,716
Bakkavor Group	8,528	Punch Taverns	12,742
U and I Group	8,450	Centamin	12,722
NCC Group	8,242	Mothercare	12,565
KCOM Group	8,104	Imagination Technologies Group	10,333
Topps Tiles	7,871	SDL	9,150
Just Group	6,974	Findel	8,201
Spirent Communications	6,655	Countrywide	6,267
Ultra Electronics Holdings	6,317	Servelec Group	5,752
DFS Furniture	6,074	Vitec Group	3,911
Other Purchases	103,674	Other Sales	24,207
Total Purchases (incl. transaction costs)	**300,929**	**Total Sale Proceeds (incl. transaction costs)**	**343,405**

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2016 NSCI (XIC) Weight %	31 December 2016 Portfolio Weight %	31 December 2016 Portfolio Valuation £'000	Net Purchases/ (Sales)[1] £'000	Net Appreciation/ (Depreciation) £'000	31 December 2017 Portfolio Valuation £'000	31 December 2017 Portfolio Weight %	31 December 2017 NSCI (XIC)[2] Weight %
Oil & Gas	4	6	77,836	9,597	(20,462)	**66,971**	**5**	**4**
Basic Materials	4	3	40,218	(9,427)	134	**30,925**	**2**	**4**
Industrials	26	38	467,191	(15,437)	114,394	**566,148**	**39**	**26**
Consumer Goods	10	5	56,661	(17,303)	33,770	**73,128**	**5**	**10**
Health Care	5	1	18,163	412	(2,570)	**16,005**	**1**	**4**
Consumer Services	19	20	249,619	42,345	20,898	**312,862**	**22**	**19**
Telecommunications	1	–	876	8,104	(17)	**8,963**	**1**	**2**
Utilities	–	–	–	–	–	**–**	**–**	**1**
Financials	25	20	249,361	(38,284)	41,850	**252,927**	**17**	**25**
Technology	6	7	93,322	(22,483)	41,728	**112,567**	**8**	**5**
	100	100	1,253,247	(42,476)	229,725	**1,440,496**	**100**	**100**

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2016 No. of Companies	31 December 2016 Portfolio Valuation £'000	31 December 2016 Weight %	31 December 2016 NSCI (XIC) Weight %	31 December 2017 No. of Companies	31 December 2017 Portfolio Valuation £'000	31 December 2017 Weight %	31 December 2017 NSCI (XIC)[2] Weight %
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	26	507,359	41	62	**23**	**540,054**	**38**	**60**
FTSE SmallCap	37	501,013	40	29	**41**	**660,501**	**46**	**31**
FTSE Fledgling	7	40,590	3	1	**7**	**49,783**	**3**	**1**
Other	17	204,285	16	8	**15**	**190,158**	**13**	**8**
	87	1,253,247	100	100	**86**	**1,440,496**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2018.

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 recognises the importance of diversity in its broadest sense (including skills, experience, gender and tenure) in enabling it to fulfil the present and future needs of the Company. As at 31 December 2017, there were three male directors and two female directors.

Environmental, Human Rights, Employee, Social 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 social, environmental and ethical issues is set out within the Corporate Governance Report on page 26.

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 26 January 2018 and signed on its behalf by:

Paul Trickett,
Chairman

Governance Report

Board of Directors

Paul Trickett, Chairman

Appointed: 30 January 2013
Shareholding in the Company: 6,860 Ordinary Shares

Paul is a non executive director on a number of companies. As well as chairing Aberforth Smaller Companies Trust, he also chairs Railpen Investments and sits on the Board of Aviva Life UK and Thomas Miller Holdings. He also chairs the Advisory Board of Muse Advisory and is Trustee of the Mineworkers Pension Scheme. He retired from a full time executive career in 2013 where he was latterly a Managing Director at Goldman Sachs Asset Management.

Julia Le Blan

Appointed: 29 January 2014 and is a member of 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, F&C 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
Shareholding in the Company: 2,100 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.

David Jeffcoat

Appointed: 22 July 2009 and is Chairman of the Audit Committee
Shareholding in the Company: 7,926 Ordinary Shares

David began his career as a production engineer at Jaguar Cars. After qualifying as an accountant (FCMA) several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently he was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until 2009. He is a Director and Chairman of the Audit Committee of WYG plc. He also works as a volunteer Citizens Adviser.

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 and Chaarat Gold Holdings Limited.

Directors' Report

The Directors submit their Annual Report and Financial Statements for the year ended 31 December 2017.

Directors

The Directors of the Company during the financial year are listed on page 31. 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 on pages 1, 4 and 5.

Return and Dividends

The total return attributable to shareholders for the year ended 31 December 2017 amounted to a gain of £262,347,000 (2016: gain of £62,352,000). The net asset value per Ordinary Share at 31 December 2017 was 1,543.72p (2016: 1,292.57p).

Your Board is pleased to declare a final dividend of 19.75p and a special dividend of 6.70p (total of £24,598,000), which produces total dividends for the year of 35.5p (total of £33,098,000). The final and special dividends, subject to Shareholder approval, will be paid on 6 March 2018 to Shareholders on the register at the close of business on 9 February 2018.

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. Since then funds under management have grown to £2.5 billion (as at 31 December 2017). The firm is wholly owned by seven partners, six of whom are investment managers. The investment managers work as a team managing the Company's portfolio on a collegiate basis.

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 £9,641,000 in the year ended 31 December 2017 (2016: £8,296,000).

The secretarial fee amounted to £81,692 (excluding VAT) during 2017 (2016: £79,940, 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

National Westminster Bank plc 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.

National Westminster Bank plc receives 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 2017, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 92,999,137 were issued and fully paid. During the year, 1,404,155 shares (1.5% of the Company's issued share capital with a nominal value of £14,042) were bought back and cancelled at a total cost of £18,142,000. No shares are held in treasury. Share buy-ins 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-ins 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 in March 2020.

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

In accordance with the report "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the Financial Reporting Council, the Audit Committee has undertaken and documented an assessment of whether the Company is a going concern. The Committee then 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, its financial risk, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet any funding requirements, though 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.

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 2017 and 26 January 2018. The total number of votes amounted to 92,999,137 at 31 December 2017. Since 31 December 2017, 67,000 shares have been bought back and cancelled and therefore the total number of votes at 26 January 2018 amounted to 92,932,137.

Notified interests	Percentage of Voting Rights Held
Investec Wealth & Investment Limited	8.5%
Brewin Dolphin Limited	8.4%
Rathbone Brothers plc	5.6%

Annual General Meeting

The AGM will be held on Thursday, 1 March 2018 at 6.00 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM.

Purchase of Own Shares

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 10, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2019. 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. 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 20 and 21.
- 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 23 and 24.
- 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 has zero tolerance of bribery and is committed to carrying out business fairly, honestly and openly. Aberforth Partners, the Company's Investment Managers, have confirmed that anti-bribery policies and procedures are in place and have a zero tolerance towards bribery.

Post Balance Sheet Events

As stated above, since 31 December 2017, the Company bought in and subsequently cancelled 67,000 shares at a total cost of £912,000.

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.

By Order of the Board
Paul Trickett
Chairman
26 January 2018

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (the AIC Code) as set out in the AIC Guide. The AIC Code addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Board considers that reporting in accordance with the principles and recommendations of the AIC Code provides more relevant and comprehensive information to shareholders. Both the AIC Code and the AIC Guide are available on the AIC website at www.theaic.co.uk. This report forms part of the Directors' Report on pages 19 to 22.

Compliance

Throughout the year ended 31 December 2017 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 Chairman of the Audit Committee fulfils this role when necessary, for example in taking the lead in the annual evaluation of the Chairman.

The UK 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 Guide, the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

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. The Board comprises five non-executive Directors, of whom Mr Trickett 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, depositary 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. An individual can therefore be considered to be independent even though their length of service may exceed nine years. No limit on the overall length of service of any of the Directors, including the Chairman, has therefore been imposed. 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 available 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 and unit trusts;
- 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). All Directors also attended the AGM in March 2017.

Director	The Board		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
S P Trickett, Chairman	5	5	–	–
P M Hay-Plumb	5	5	–	–
D J Jeffcoat	5	5	3	3
J Le Blan	5	5	3	3
R A Rae	5	5	3	3

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 or a formal policy. No directors were appointed during 2017. However, as mentioned in the Chairman's Statement, David Jeffcoat will retire at the conclusion of this year's AGM and the Board has decided that an additional Director should be appointed in due course.

The Board established a Committee, chaired by Paul Trickett, for this purpose taking into consideration the Board's agreed requirements. External executive search consultants, Forster Chase, were appointed to conduct a full search in order to find the best person for the position. Several strong candidates were identified and the Committee, supported by Forster Chase, held conference calls and meetings with a shortlist of candidates. The remaining Directors recently met the preferred candidates put forward by the Committee and it is likely that an announcement regarding Board composition will be made in the coming weeks.

Board performance and re-appointment of Directors

The Board undertakes a formal annual assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Board conducted this review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which were summarised and discussed in October 2017, providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman was led by the Chairman of the Audit Committee. In 2016, the Board appointed Lintstock Limited to facilitate an external review and its was agreed to utilise external facilitators every three years.

In line with the Board's policy, all Directors, with the exception of David Jeffcoat, being eligible, 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. As mentioned above, David Jeffcoat will retire at the conclusion of this year's AGM.

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 2017 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. 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. 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 key service providers. The Board then receives a detailed report from the Audit Committee on its findings. As a consequence 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 from shareholders. The Board receives reports from the Managers of 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, paul.trickett@aberforth.co.uk. During the year, the Chairman met with several large 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 announced at the AGM and are available 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

Socially Responsible Investment

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

UK Stewardship Code

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

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

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
Paul Trickett
Chairman
26 January 2018

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 David Jeffcoat (Chairman), Richard Rae and Julia Le Blan. The members' biographies can be found on page 18.

Key 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. They will also be available for inspection at the AGM.

Principal Responsibilities:

The Committee has been given the following responsibilities:

- ensuring that all of the Company's principal risks are identified;
- monitoring the mitigating controls that have been established;
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust which is listed on the London Stock Exchange;
- reviewing the Company's financial statements, 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, determining the independence and objectivity of the Auditor and assessing the effectiveness of the audit; and
- considering whether it is appropriate for certain non-audit services to be carried out by the Auditor.

The Chairman 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 which 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, attended the meetings in January and October.

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

Audit Committee Report

Financial Reporting

The half yearly financial results, published on 27 July 2017, were not audited. Therefore the Committee's business in July was focused on a discussion, with supporting documentation from the Secretaries, on the preparation and content of the Half Yearly Report, together with other aspects such as going concern.

In October 2017, the Committee received a letter from the Financial Reporting Council (FRC) regarding their review of the 2016 Annual Report. The FRC had no formal points or concerns on the 2016 Annual Report.

In January 2018, 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 2017. This included details of the steps it had taken to confirm the valuation and ownership of the investment portfolio and recognition of income. Their report also focused on Alternative Performance Measures and the appropriate disclosures. 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 review discussed below. The Chairman of the Committee had previously discussed the outcome of the audit process and the Annual Report with the audit partner without representatives of Aberforth Partners being present. Consequently, the Committee concluded that it was satisfied as to:

- the ownership and valuation of the investment portfolio as at 31 December 2017; and
- revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period.

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.

As a result the Committee agreed that it would recommend 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, reflecting the guidance published by the Financial Reporting Council. 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 relatively high level of liquidity of the portfolio was the main factor that led to this conclusion.

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 5. In January 2018, the Committee conducted 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.

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 and believes that it continues to reflect accurately the Company's principal risks. These risks, which are detailed on page 5 of this Report, 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 Capita Registrars (now Link Registrars). 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 2017, 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.

Audit Committee Report

The Committee also discussed whether there was a need for a dedicated internal audit function. It concluded that, as the Company has no employees and sub-contracts all of its operations to third party suppliers, an internal audit function is not necessary.

Investment Trust Status

It is essential for the Company to maintain its investment trust status. The Committee confirms this point 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.

External Auditor

Deloitte was appointed as the Company's auditor on 17 April 2013 following a formal tender process. This appointment has been renewed at each subsequent AGM. Based upon existing legislation, another tender process would not be required until 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.

Audit Planning and Audit Fees

The external audit partner from Deloitte presented the detailed audit plan to the Committee in October in advance of the 2017 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 £20,100, excluding VAT, for the year (2016: £19,500). There were no non-audit activities carried out by Deloitte.

Evaluation of the Auditor

Following the completion of the audit in January 2018, the Committee reviewed the Auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience and that Andrew Partridge, the audit partner, who has significant experience of the investment trust sector, had now served for five reporting years. As the audit partner is required to be rotated every five years, the Committee has arranged to meet the proposed new audit partner in March 2018. 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 2018 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

A formal internal review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The outcome was positive with no significant concerns expressed. In 2016, a formal external review was facilitated by Lintstock Limited and it was agreed to utilise external facilitators every three years in future.

David Jeffcoat
Audit Committee Chairman
26 January 2018

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 Directors' remuneration. 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, shall determine 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 2017 and 31 December 2018. The increase in fees, with the exception of the Chairman of the Audit Committee, is the first since 1 January 2014.

	Annual Fees 2018 £	Annual Fees 2017 £
Chairman of the Company	**36,000**	34,500
Director and Chairman of the Audit Committee	**30,000**	29,000
Director and Member of the Audit Committee	**25,500**	24,500
Director	**24,000**	23,000

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 34.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to annual re-election by Shareholders. After the initial period, each Director's term is, upon review, extended for a further year. 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
S P Trickett, *Chairman*	30 January 2013	AGM 2018
P M Hay-Plumb	29 January 2014	AGM 2018
D J Jeffcoat	22 July 2009	N/A
J Le Blan	29 January 2014	AGM 2018
R A Rae	26 January 2012	AGM 2018

Each Director's unexpired term is subject to their re-election at the Annual General Meeting in March 2018.

Directors' Fees (Audited)

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

Director	**Fees (Total Emoluments) 2017 £**	Fees (Total Emoluments) 2016 £
S P Trickett, Chairman	**34,500**	34,500
D J Jeffcoat, Chairman of the Audit Committee	**29,000**	28,000
J Le Blan	**24,500**	24,500
P M Hay-Plumb	**23,000**	23,000
R A Rae	**24,500**	24,500
	135,500	134,500

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 buybacks:

	2017 £'000	2016 £'000	Absolute change £'000
Total Directors' remuneration	**136**	135	1
Total dividends in respect of that year	**33,098**	28,443	4,655
Total share buyback consideration	**18,142**	6,282	11,860

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 2017 and their interests in the Shares of the Company as at that date and 1 January 2017 were as follows:

		Ordinary Shares	
Directors	Nature of Interest	31 December 2017	1 January 2017
S P Trickett, Chairman	Beneficial	6,860	6,860
J Le Blan	Beneficial	3,000	3,000
D J Jeffcoat	Beneficial	7,926	7,872
P M Hay-Plumb	Beneficial	2,100	2,100
R A Rae	Beneficial	4,000	4,000

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2017 and 26 January 2018. 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 1 March 2017, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report: of the 42,650,973 proxy votes, 42,634,391 were cast in favour, 12,617 were cast against and 3,965 votes were withheld in respect of the resolution to approve the Remuneration Report. 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.

Total return performance since 31 December 2008

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 2008. 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 2017:

(a) the major decisions on Directors' remuneration;

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

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

On behalf of the Board
Paul Trickett
Chairman
26 January 2018

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 Company's 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
Paul Trickett
Chairman
26 January 2018

Independent Auditor's Report

To the Members of Aberforth Smaller Companies Trust plc

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Aberforth Smaller Companies Trust plc (the 'Company') which comprise:

- the Income Statement;
- Reconciliation of Movements 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 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 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 matters that we identified in the current year were: • Valuation and ownership of investments • Revenue recognition - completeness of dividend income Within this report, any key audit matters which are the same as the prior year are identified with ⓢ.
Materiality	The materiality that we used in the current year was £14.35m which was determined on the basis of 1% of net assets at 31 December 2017.
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 were no significant changes in our approach from the prior year.

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the financial statements and the Directors' statement on the longer-term viability of the Company contained within the strategic report on page 5.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 5 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 5 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;
- the Directors' statement on page 20 of 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Independent Auditor's Report

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

- the Directors' explanation on page 5 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; or
- whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

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	How the scope of our audit responded to the key audit matter	Key observations
The listed investments of the Company £1,440m (2016: £1,253m) make up 100.3% (2016: 102.7%) of total net assets £1,436m (2016: £1,220m). Please see Accounting Policy 1(b) and note 10. Investments listed on recognised exchanges are valued at the closing bid price at the year end. 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. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 28.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • confirmed 100% of the valuation of the listed investments to closing bid prices published by an independent pricing source; • confirmed 100% of listed investments at the year end to confirmations received directly from the custodian and depository; and • reviewed the internal controls report over Northern Trust, as it applied to custody and attended the Audit Committee meeting at which the Northern Trust controls report was evaluated to assess the adequacy of the design and implementation of controls at the custodian.	No misstatements were identified which required reporting to those charged with governance in regards to the valuation of the portfolio. We did not identify any differences when agreeing the Company's investment portfolio to the confirmation received directly from the custodian and depositary.

Revenue recognition - completeness of dividend income

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Dividends from equity shares totalling £44m (2016: £39m) are accounted for on an 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. Please see Accounting Policy 1(c) and note 3. There is a risk that revenue is incomplete and consequently the revenue recognised in the financial statements is misstated. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 28.	We have performed the following procedures to address this key audit matter: • critically assessed the design and implementation of controls over revenue recognition including the Manager's monitoring of accuracy and completeness of revenue; • for a sample of listed investments, obtained ex-dividend dates and rates for dividends declared during the year and agreed the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • agreed a sample of dividend income receipts to bank statements.	No misstatements were identified which required reporting to those charged with governance in regards to the completeness of dividend income. Accounting policies in relation to revenue recognition were found to be in line with FRS 102, the SORP and industry peers.

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	£14.35m (2016: £12.2m)
Significant changes in our approach	1% (2016: 1%) of net assets.
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is the key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £287,000 (2016: £244,000), 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.

Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Directors' 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 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibility 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.

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

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.

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.

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's 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 year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2013 to 31 December 2017.

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).

Andrew Partridge (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Edinburgh, United Kingdom

26 January 2018

Income Statement

For the year ended 31 December 2017

	Note	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Net gains on investments	10	**–**	**232,376**	**232,376**	–	29,674	29,674
Investment income	3	**43,676**	**–**	**43,676**	39,027	5,229	44,256
Other income	3	**1**	**–**	**1**	46	–	46
Investment management fee	4	**(3,615)**	**(6,026)**	**(9,641)**	(3,111)	(5,185)	(8,296)
Portfolio transaction costs	5	**–**	**(2,651)**	**(2,651)**	–	(1,925)	(1,925)
Other expenses	5	**(750)**	**–**	**(750)**	(689)	–	(689)
Net return before finance costs and tax		**39,312**	**223,699**	**263,011**	35,273	27,793	63,066
Finance costs	6	**(249)**	**(415)**	**(664)**	(254)	(424)	(678)
Return on ordinary activities before tax		**39,063**	**223,284**	**262,347**	35,019	27,369	62,388
Tax on ordinary activities	7	**–**	**–**	**–**	(36)	–	(36)
Return attributable to equity shareholders		**39,063**	**223,284**	**262,347**	34,983	27,369	62,352
Returns per Ordinary Share	9	**41.59p**	**237.73p**	**279.32p**	36.93p	28.89p	65.82p

The Board declared on 26 January 2018 a final dividend of 19.75p per Ordinary Share and a special dividend of 6.70p per Ordinary Share. The Board also declared on 27 July 2017 an interim dividend of 9.05p 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 2017

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2016		944	44	166,343	983,250	69,647	1,220,228
Return on ordinary activities after taxation		–	–	–	223,284	39,063	262,347
Equity dividends paid	8	–	–	–	–	(28,791)	(28,791)
Purchase of Ordinary Shares	14	(14)	14	(18,142)	–	–	(18,142)
Balance as at 31 December 2017		**930**	**58**	**148,201**	**1,206,534**	**79,919**	**1,435,642**

For the year ended 31 December 2016

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2015		950	38	172,625	955,881	62,385	1,191,879
Return on ordinary activities after taxation		–	–	–	27,369	34,983	62,352
Equity dividends paid	8	–	–	–	–	(27,721)	(27,721)
Purchase of Ordinary Shares	14	(6)	6	(6,282)	–	–	(6,282)
Balance as at 31 December 2016		944	44	166,343	983,250	69,647	1,220,228

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2017

	Note	**2017 £'000**	2016 £'000
Fixed assets			
Investments at fair value through profit or loss	10	**1,440,496**	1,253,247
Current assets			
Debtors	11	**3,649**	2,881
Cash at bank		**293**	241
		3,942	3,122
Creditors (amounts falling due within one year)	12	**(199)**	(36,141)
Net current assets/(liabilities)		**3,743**	(33,019)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,444,239**	1,220,228
Creditors (amounts falling due after more than one year)	13	**(8,597)**	–
TOTAL NET ASSETS		**1,435,642**	1,220,228
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital	14	**930**	944
Capital redemption reserve	15	**58**	44
Special reserve	15	**148,201**	166,343
Capital reserve	15	**1,206,534**	983,250
Revenue reserve	15	**79,919**	69,647
TOTAL SHAREHOLDERS' FUNDS		**1,435,642**	1,220,228
NET ASSET VALUE PER ORDINARY SHARE	16	**1,543.72p**	1,292.57p

Approved and authorised for issue by the Board of Directors on 26 January 2018 and signed on its behalf by:

Paul Trickett,
Chairman

The accompanying notes form an integral part of this statement.

Registered in Scotland number SC126524

Cash Flow Statement

For the year ended 31 December 2017

	Note	**2017 £'000**	2016 £'000
Operating activities			
Net revenue before finance costs and tax		**39,312**	35,273
Tax recovered		**–**	23
Receipt of special dividends taken to capital	3	**–**	5,229
Investment management fee charged to capital	4	**(6,026)**	(5,185)
Increase in debtors		**(768)**	*(215)*
Decrease in other creditors		**(17)**	(40)
Net cash inflow from operating activities		**32,501**	35,085
Investing activities			
Purchases of investments		**(301,163)**	(231,112)
Sales of investments		**343,405**	201,136
Cash inflow/(outflow) from investing activities		**42,242**	(29,976)
Financing activities			
Purchases of Ordinary Shares	14	**(18,142)**	(6,282)
Equity dividends paid	8	**(28,791)**	(27,721)
Interest and fees paid	17	**(758)**	(640)
Net (repayment)/drawdown of bank debt facilities (before any costs)	12, 13	**(27,000)**	28,750
Cash outflow from financing activities		**(74,691)**	(5,893)
Change in cash during the period		**52**	(784)
Cash at the start of the period		**241**	1,025
Cash at the end of the period		**293**	241

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 2014, updated in January 2017. 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 a not a significant risk of causing 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 accounted for 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 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.

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 6, provide shareholders with important information on the Company and are appropriate for an investment trust company. These APMs are also a component of the internal management reporting to the Board. A glossary of the APMs can be found on page 56.

3 Income

		2017			2016	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Income from investments						
UK dividends	**42,002**	**–**	**42,002**	36,816	5,229	42,045
Overseas dividends	**852**	**–**	**852**	1,623	–	1,623
Property income distributions	**822**	**–**	**822**	588	–	588
	43,676	**–**	**43,676**	39,027	5,229	44,256
Other income						
Underwriting commission	**–**	**–**	**–**	46	–	46
Deposit interest	**1**	**–**	**1**	–	–	–
Total income	**43,677**	**–**	**43,677**	39,073	5,229	44,302

During the year the Company received special dividends amounting to £882,000 (2016: £7,084,000), of which none (2016: £5,229,000) were considered as a return of capital by the investee company.

4 Investment Management Fee

		2017			2016	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**3,615**	**6,026**	**9,641**	3,111	5,185	8,296

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

5 Other Expenses

	2017 £'000	2016 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Depositary fee	**180**	169
Directors' fees (refer to Directors' Remuneration Report)	**136**	135
Secretarial services	**98**	96
Registrar fee	**74**	72
Custody and other bank charges	**59**	51
FCA and LSE listing fees	**57**	59
Auditor's fee – audit of the financial statements	**24**	23
– for non-audit services	**–**	–
AIC fees	**21**	21
Legal fees	**20**	18
Directors' and Officers' liability insurance	**11**	11
Other expenses	**70**	34
	750	689

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:

	2017 £'000	2016 £'000
Analysis of total purchases		
Purchase consideration before expenses	**298,903**	229,487
Commissions	**610**	502
Taxes	**1,416**	1,064
Total purchase expenses	**2,026**	1,566
Total purchase consideration	**300,929**	231,053
Analysis of total sales		
Sales consideration before expenses	**344,030**	201,495
Commissions	**(625)**	(359)
Total sale proceeds net of expenses	**343,405**	201,136
Total expenses incurred in acquiring/disposing of investments	**2,651**	1,925

6 Finance Costs

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Interest/non-utilisation costs on bank debt facility	**229**	**383**	**612**	239	399	638
Amortisation of bank debt facility costs	**20**	**32**	**52**	15	25	40
	249	**415**	**664**	254	424	678

7 Taxation

Analysis of tax charged on return on ordinary activities

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 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:

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Total returns on ordinary activities before tax	**39,063**	**223,284**	**262,347**	35,019	27,369	62,388
Notional corporation tax at 19% (2016: 20%)	**7,422**	**42,424**	**49,846**	7,004	5,474	12,478
Adjusted for the effects of:						
Non-taxable UK dividend income	**(7,917)**	**–**	**(7,917)**	(7,363)	(1,046)	(8,409)
Non-taxable overseas dividend income	**(225)**	**–**	**(225)**	(325)	–	(325)
Expenses not deductible for tax purposes	**–**	**504**	**504**	–	385	385
Excess expenses for which no relief has been taken	**720**	**1,223**	**1,943**	684	1,122	1,806
Non-taxable capital gains	**–**	**(44,151)**	**(44,151)**	–	(5,935)	(5,935)
UK corporation tax charge for the year	**–**	**–**	**–**	–	–	–
Irrecoverable overseas taxation suffered	**–**	**–**	**–**	36	–	36
Total tax charge for the year	**–**	**–**	**–**	36	–	36

The Company has not recognised a potential asset for deferred tax of £22,164,000 (2016: £21,294,000) 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 current main rate of corporation tax is 19% (2016: 20%).

Notes to the Financial Statements

8 Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2016 of 18.75p (2015: 17.85p) paid on 3 March 2017	**17,696**	16,962
Special dividend for the year ended 31 December 2016 of 2.75p (2015: 2.75p) paid on 3 March 2017	**2,595**	2,613
Interim dividend for the year ended 31 December 2017 of 9.05p (2016: 8.60p) paid on 24 August 2017	**8,500**	8,146
	28,791	27,721
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2017 of 19.75p (2016: final dividend of 18.75p) payable on 6 March 2018	**18,367**	17,696
Special dividend for year ended 31 December 2017 of 6.70p (2016: 2.75p) payable on 6 March 2018	**6,231**	2,595
	24,598	20,291

The final dividend and the special dividend have not been included as liabilities in these financial statements.

9 Returns per Ordinary Share

	2017	2016
The returns per Ordinary Share are based on:		
Returns attributable to Ordinary Shareholders	**£262,347,000**	£62,352,000
Weighted average number of shares in issue during the year	**93,923,545**	94,730,414
Return per Ordinary Share	**279.32p**	65.82p

There are no dilutive or potentially dilutive shares in issue.

10 Investments

	2017 £'000	2016 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,253,247**	1,195,581
Opening fair value adjustment	**(9,457)**	4,640
Opening book cost	**1,243,790**	1,200,221
Purchases at cost	**298,903**	229,487
Sale proceeds	**(344,030)**	(201,495)
Realised gains on sales	**82,525**	15,577
Closing book cost	**1,281,188**	1,243,790
Closing fair value adjustment	**159,308**	9,457
Closing fair value	**1,440,496**	1,253,247

All investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated on pages 14 to 16.

	2017 £'000	2016 £'000
Gains/(losses) on investments:		
Net realised gains on sales	**82,525**	15,577
Movement in fair value adjustment	**149,851**	14,097
Net gains on investments	**232,376**	29,674

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 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,440,496**	**–**	**–**	**1,440,496**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,440,496**	**–**	**–**	**1,440,496**

As at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,253,247	–	–	1,253,247
Unlisted equities	–	–	–	–
Total financial asset investments	1,253,247	–	–	1,253,247

11 Debtors

	2017 £'000	2016 £'000
Investment income receivable	3,610	2,841
Other debtors	39	40
	3,649	2,881

12 Creditors: Amounts falling due within one year

	2017 £'000	2016 £'000
Amounts due to brokers	**–**	234
Other creditors	**199**	175
Bank debt facility (See Note 13)	**–**	35,750
Less: Unamortised costs (See Note 13)	**–**	(18)
	199	36,141

13 Creditors: Amounts falling due after more than one year

	2017 £'000	2016 £'000
Bank debt facility	**8,750**	–
Less: Unamortised costs	**(153)**	–
	8,597	–

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. A 0.15% arrangement fee was paid in connection with the extension in June 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 2017, total borrowings represented 0.6% of total adjusted gross assets (as defined by Facility Agreement). The facility is due to expire on 15 June 2020.

Notes to the Financial Statements

14 Share Capital

	2017 No. of Shares	2017 £'000	2016 No. of Shares	2016 £'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	**92,999,137**	**930**	94,403,292	944

During the year, the Company bought in and cancelled 1,404,155 shares (2016: 620,500) at a total cost of £18,142,000 (2016: £6,282,000). During the period 1 January to 26 January 2018, the Company bought in and subsequently cancelled 67,000 shares at a total cost of £912,000.

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 2015	950	38	172,625	955,881	62,385	1,191,879
Net gains on sale of investments	–	–	–	15,577	–	15,577
Movement in fair value adjustment	–	–	–	14,097	–	14,097
Cost of investment transactions	–	–	–	(1,925)	–	(1,925)
Management fees charged to capital	–	–	–	(5,185)	–	(5,185)
Finance costs charged to capital	–	–	–	(424)	–	(424)
Special dividends taken to capital	–	–	–	5,229	–	5,229
Revenue return attributable to equity shareholders	–	–	–	–	34,983	34,983
Equity dividends paid	–	–	–	–	(27,721)	(27,721)
Purchase of Ordinary Shares	(6)	6	(6,282)	–	–	(6,282)
At 31 December 2016	**944**	**44**	**166,343**	**983,250**	**69,647**	**1,220,228**
Net gains on sale of investments	–	–	–	82,525	–	82,525
Movement in fair value adjustment	–	–	–	149,851	–	149,851
Cost of investment transactions	–	–	–	(2,651)	–	(2,651)
Management fees charged to capital	–	–	–	(6,026)	–	(6,026)
Finance costs charged to capital	–	–	–	(415)	–	(415)
Revenue return attributable to equity shareholders	–	–	–	–	39,063	39,063
Equity dividends paid	–	–	–	–	(28,791)	(28,791)
Purchase of Ordinary Shares	(14)	14	(18,142)	–	–	(18,142)
At 31 December 2017	**930**	**58**	**148,201**	**1,206,534**	**79,919**	**1,435,642**

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:

	2017	2016
Net assets attributable	**£1,435,642,000**	£1,220,228,000
Ordinary Shares in issue at the end of year	**92,999,137**	94,403,292
Net asset value per Ordinary Share	**1,543.72p**	1,292.57p
Effect of dividends received reinvested on the respective ex-dividend dates	**34.29p**	34.52p
Net asset value on a total return basis	**1,578.01p**	1,327.09p

The net asset value total return for the year end 31 December 2017 is the percentage movement from the net asset value as at 31 December 2016 of 1,292.57p (31 December 2015: 1,254.30p) to the net asset value, on a total return basis, at 31 December 2017 of 1,578.01p (31 December 2016: 1,327.09p), which is 22.1% (2016: 5.8%).

Notes to the Financial Statements

17 Interest and Finance Costs Paid

	2017	2016
	£'000	£'000
Interest/non-utilisation costs on bank debt facility	**(758)**	(640)

18 Analysis of changes in net debt

	Net debt at 1 January 2017 £'000	**Cash flow £'000**	**Other non-cash movements £'000**	**Net debt at 31 December 2017 £'000**
Cash at bank	**241**	**52**	**–**	**293**
Bank debt facility	**(35,750)**	**27,000**	**–**	**(8,750)**
Bank debt facility fee (see notes 12 and 13)	**18**	**187**	**(52)**	**153**
	(35,491)	**27,239**	**(52)**	**(8,304)**

19 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 14 to 16), 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:

(i) *Interest rate risk*, being 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, will be 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 0.10% as at 31 December 2017 (2016: 0.01%).

The Company has a bank debt facility of £125,000,000 of which £8,750,000 was drawn down as at 31 December 2017 (2016: debt facility of £125,000,000, of which £35,750,000 was drawn down). Further details of this facility can be found in Notes 12 and 13.

If LIBOR and the bank base rate had been 1% point higher at 31 December 2017, the impact on the profit or loss and therefore Shareholders' funds would have been negative £87,500 per annum (2016: negative £357,500). If LIBOR and the bank base rate had been 0.25% point lower at 31 December 2017, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £21,875 per annum (2016: positive £89,375). There would be no direct impact on the portfolio valuation. The calculations are based on the 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, which, if necessary, can be sold to meet funding requirements. 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 Depositary 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:

	2017	2016
	£'000	£'000
Investment income receivable	**3,610**	2,841
Cash at bank	**293**	241
	3,903	3,082

(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 8 to 12. 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 2017, the impact on the profit or loss and therefore Shareholders' funds would have been negative £144.0m (2016: negative £125.3m). If the investment portfolio valuation rose by 10% at 31 December 2017, the impact on the profit or loss and therefore Shareholders' funds would have been positive £144.0m (2016: positive £125.3m). 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 2017, 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 two investments that have been fair valued at £nil (see note 10), 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 2017

(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	–	**79**	–	**8,750**	–	**8,829**
Unamortised costs	–	–	–	**(153)**	–	**(153)**
Amounts due to brokers	–	–	–	–	–	–
Other creditors	**90**	**30**	–	–	–	**120**
Total liabilities	**90**	**109**	–	**8,597**	–	**8,796**

19 Financial instruments *(continued)*

As at 31 December 2016

(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	2	36	35,750	–	–	35,788
Unamortised costs	–	–	(18)	–	–	(18)
Amounts due to brokers	234	–	–	–	–	234
Other creditors	107	30	–	–	–	137
Total liabilities	343	66	35,732	–	–	36,141

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2017

(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	–	**171**	**521**	**9,838**	–	**10,530**
Amounts due to brokers	–	–	–	–	–	–
Other creditors	–	**199**	–	–	–	**199**
	–	**370**	**521**	**9,838**	–	**10,729**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2016

(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	–	187	35,997	–	–	36,184
Amounts due to brokers	–	234	–	–	–	234
Other creditors	–	136	–	–	–	136
	–	557	35,997	–	–	36,554

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 13.

20 Related Party Transactions

Directors' fees and their shareholdings are detailed in the Directors' Remuneration Report on pages 31 and 32. There were no matters requiring disclosure under s412 of the Companies Act 2006.

Notes to the Financial Statements

21 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2017 (2016: nil). Since 2007, investment management fees incurred by the Company have been exempt from VAT. The Company recovered much of the VAT it suffered prior to the change in UK law, together with simple interest, during 2008. The Managers have continued to pursue further recoveries since then, with claims stayed pending the outcome of a variety of relevant lead court cases. These cases concluded with judgements in favour of HM Revenue & Customs during 2017. Accordingly, the Board does not now expect any further recoveries in this regard.

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-seventh Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 1 March 2018 at 6.00 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 2017 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2017 be approved.
3. That a special dividend of 6.70p per share and a final dividend of 19.75p per share be approved.
4. That Mr S P Trickett be re-elected as a Director.
5. That Mr R A Rae be re-elected as a Director.
6. That Mrs J Le Blan be re-elected as a Director.
7. That Mrs P M Hay-Plumb be re-elected as a Director.
8. That Deloitte LLP be re-appointed as Auditor.
9. That the Audit Committee be authorised to determine the remuneration of the Auditor for the year to 31 December 2018.

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

10. That pursuant to and in accordance with its Articles of Association, 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 13,930,527 (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;
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2019 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2019, 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

FoR

Aberforth Partners LLP, *Secretaries*

26 January 2018

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 27 February 2018 (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 your vote electronically, log on to the Registrar's web site at www.signetshares.com and follow the instructions on screen.

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

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the 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 1 March 2018 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 AGM.

4. **Total Voting Rights**

   As at 26 January 2018, the latest practicable date prior to publication of this document, the Company had 92,932,137 Ordinary Shares in issue with a total of 92,932,137 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 AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website 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. As at 31 December 2017, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

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

The prices of the Ordinary Shares are quoted daily in the Financial Times, The Times and The Scotsman. Company performance and other relevant information are available on the Managers' website at www.aberforth.co.uk and are updated monthly. The price, together with the daily Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.FT.com and www.theaic.co.uk.

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 2017			
	Interim	**Special**	**Final**
Rate per Share:	9.05p	6.70p	19.75p
Ex Dividend:	3 August 2017	8 February 2018	8 February 2018
Record date:	4 August 2017	9 February 2018	9 February 2018
Pay date:	24 August 2017	6 March 2018	6 March 2018
Half Yearly Report	Published	late July	
Annual Report and Financial Statements	Published	late January	
Annual General Meeting		1 March 2018	
Publication of Net Asset Values		Daily (via the Managers' website)	

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed Aberforth Partners 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 2017 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

	2017		2016	
Leverage Exposure (refer to the Glossary)	**Commitment Method**	**Gross Method**	Commitment Method	Gross Method
Maximum limit	**2.00:1**	**2.00:1**	2.00:1	2.00:1
Actual	**1.00:1**	**1.00:1**	1.03:1	1.03:1

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 2017) are available on request from Aberforth Partners.

The Common Reporting Standard

On 1 January 2016 the OECD Common Reporting Standard for Automatic Exchange of Financial Account information ('Common Reporting Standard') came into effect.

The legislation 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

Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These are typically 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. This is known as 'boiler room fraud'.

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

Net Asset Value per Ordinary Share (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 47).

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 2017 was 1326.00p (2016: 1109.00p) and dividends, which went ex dividend during the year (see note 8 on page 45) were 30.55p (2016: 29.20p). The effect of reinvesting these dividends on the respective ex-dividend dates amounted to 34.11p (2016: 33.37p). The share price total return was therefore 22.6% (2016: -4.2%), being the sum of the closing share price, plus the reinvestment dividend figure, divided by the closing share price at the previous year end.

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.

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.

Performance Attribution is an analysis of how the Company achieved its performance relative to its benchmark. Sector and stock selection measures the effect of investing in sectors and securities to a greater or lesser extent than their weighting in the benchmark.

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).

Ongoing Charges represent the total cost of investment management fees and other operating expenses of £10,391,000 (2016: £8,985,000), as disclosed in the Income Statement, as a percentage of the average published net asset value £1,363,794,000 (2016: £1,121,430,000) over the period and are calculated in accordance with the guidelines issued by the AIC.

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.

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

Corporate Information

Investment Managers and Secretaries

Aberforth Partners LLP
14 Melville Street
Edinburgh EH3 7NS
Tel: 0131 220 0733
Email: 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)
Email: 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 plc
36 St Andrew Square
Edinburgh EH2 2YB

Custodian

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

Independent Auditor

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Depositary

National Westminster Bank plc
Trustee & Depositary Services
The Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH