Aberdeen Smaller Companies Income Trust PLC

Hunting smaller companies for a stronger income

Annual Report
31 December 2019

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"I am pleased to report that your Company's performance against its benchmark has been good this year, with the Company returning +34.4% versus a benchmark return of +17.7%."

Robert Lister, Chairman

"2019 was a very strong period of performance for the Trust, with outperformance in reasonably buoyant market conditions. This continues the long term track record of the Company."

Abby Glennie,
Aberdeen Asset Managers Limited

Contents

Highlights and Financial Calendar

Net asset value total return[A]

2019:

+34.4%

2018: -14.6%

FTSE Small Cap ex Inv Trust Index total return

2019:

+17.7%

2018: -13.8%

Share price total return[A]

2019:

+57.7%

2018: -20.2%

Earnings per Ordinary share (revenue)

2019:

9.98p

2018: 9.03p

Dividend per share

2019:

8.25p

2018: 7.35p

Discount to net asset value[A]

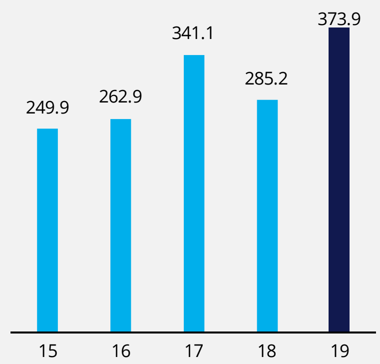
2019:

8.3%

2018: 21.5%

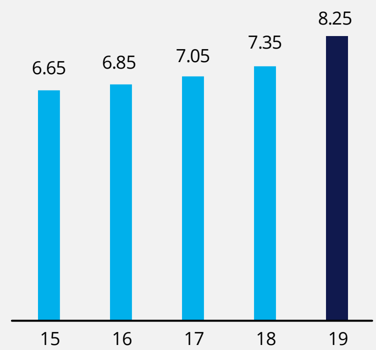
[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 76 and 77.

Net Asset Value per Ordinary share



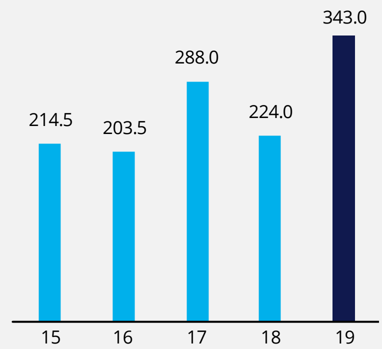
At 31 December 2019 – pence

Dividend per Ordinary share



At 31 December 2019 – pence

Share price per Ordinary share



At 31 December 2019 – pence

Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	1.95p	4 April 2019	5 April 2019	26 April 2019
Second interim dividend	1.95p	4 July 2019	5 July 2019	26 July 2019
Third interim dividend	1.95p	3 October 2019	4 October 2019	25 October 2019
Fourth interim dividend	2.40p	2 January 2020	3 January 2020	24 January 2020
2019	**8.25p**			
First interim dividend	1.80p	5 April 2018	6 April 2018	27 April 2018
Second interim dividend	1.80p	12 July 2018	13 July 2018	27 July 2018
Third interim dividend	1.80p	4 October 2018	5 October 2018	26 October 2018
Fourth interim dividend	1.95p	3 January 2019	4 January 2019	25 January 2019
2018	**7.35p**			

Financial Calendar

Payment dates of quarterly dividends	January 2020 April 2020 July 2020 October 2020
Financial year end	31 December 2019
Annual General Meeting (London)	30 April 2020

Highlights

	31 December 2019	31 December 2018	% change
Total investments	£88,808,000	£66,843,000	+32.9
Shareholders' funds	£82,660,000	£63,052,000	+31.1
Market capitalisation	£75,836,000	£49,526,000	+53.1
Net asset value per Ordinary share	373.86p	285.18p	+31.1
Share price (mid market)	343.00p	224.00p	+53.1
Discount to net asset value per Ordinary share[A]	8.3%	21.5%	
Net gearing[A]	7.5%	6.2%	
Ongoing charges ratio[A]	1.20%	1.28%	
Dividends and earnings			
Earnings per Ordinary share (revenue)[B]	9.98p	9.03p	+10.5
Dividends per Ordinary share[C]	8.25p	7.35p	+12.2
Dividend cover[A]	1.21	1.23	–1.6
Revenue reserves[D]	£3,595,000	£3,114,000	+15.4

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 76 and 77.
[B] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[C] The figures for dividends per share reflect the years in which they were earned (see note 8 on page 65).
[D] The revenue reserve figure does not take account of the fourth interim dividend amounting to £531,000 (2018 – £431,000).

Aveva Group
One of the world's leading engineering, design and information management software providers to the process, plant and marine industries. Aveva's world-leading technology was originally developed and spun out of Cambridge University and today the business operates in 46 countries around the world.

Strategic Report

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Chairman's Statement

"The Company's 3 and 5 year NAV performance against the benchmark remains strong, returning +52.6% and +87.2% respectively, versus benchmark returns of +17.3% and +49.1%."

Robert Lister, Chairman

Performance
I am pleased to report that your Company's performance against its former benchmark, the FTSE Small Cap (excluding investment trusts), has been good this year, with the Company returning +34.4% versus a benchmark return of +17.7%.

Share price performance was equally pleasing with a return of +57.7% over the year.

The Company's 3 and 5 year NAV performance against the benchmark also remains strong, returning +52.6% and +87.2% respectively, versus benchmark returns of +17.3% and +49.1%.

Change of Benchmark
As you will recall from the half yearly report, we announced a change to the Company's benchmark with effect from 1 January 2020, from the FTSE Small Cap (excluding investment trusts) to the Numis Smaller Companies ex Investment Trusts index, as we felt that this index had more alignment with the stocks held in the Company's portfolio. The returns from the Numis Smaller Companies ex investment trusts index over 1, 3 and 5 years were 25.2%, 26.6% and 55.6% respectively.

Your Company's performance against its former benchmark, the FTSE Small Cap (excluding investment trusts), has been good this year, with the Company returning +34.4% versus a benchmark return of +17.7%.

Dividend
The Company's revenue return over the period has increased for the year ending 31 December 2019 to 9.98p (2018: 9.03p). This enabled the Company to increase the amount of its total dividend for the year to 8.25p compared to 7.35p for 2018, an increase of 12.2%, compared to an increase of 1.3% in the CPI in the year.

With the year-end share price at 343p, this gave a dividend yield of 2.4%. Over 3 and 5 years, the dividend has increased by 20.4% and 27.9% respectively compared to rises in CPI of 6.5% and 8.4%.

The undistributed balance of the revenue account will be added to the Company's revenue reserve. The revenue reserve account, which will represent 13.86p per share following payment of the fourth interim dividend, continues to provide the Company with flexibility in future years, should the dividend environment be more difficult.

Ongoing Charges
The Company's ongoing charges continue to be an area of focus for the Board and costs in 2019 reduced, resulting in the Company's ongoing charges coming down from 1.28% in 2018 to 1.20% as at 31 December 2019.

Discount
The Company's discount has narrowed this year, starting the year at 21.5% and finishing 2019 at a discount of 8.3%.

Investee Company Stewardship
The Manager continues to meet with its investee companies over the course of the year, which the Board supports and encourages. The Manager's report on pages 9-14 provides some examples and further details.

Gearing/Debt
The Company continues to utilise part of its £10 million credit facility, £5 million of which is fixed and £5 million floating. At the year-end £7 million of the facility was being utilized.

The facility has staggered maturity terms for its fixed and floating rate elements, with the floating rate facility being drawn to 2021 and the fixed rate facility to 2023.

This gives the Trust a net gearing position of 7.5%, compared to 6.2% at the end of 2018.

Board Composition
The Board continues to review its composition and to consider its succession and refreshment policies. The Board has commenced a search for a new Board appointment and Barry Rose has kindly agreed to remain on the Board until the recruitment process is complete.

Environmental, Social and Corporate Governance ("ESG")
The Board and the Manager have a very strong focus on ESG principles and the Company's Investment Manager has a robust approach to embedding ESG into its research process in order to make better investment decisions and enhance the value of the Company's investments. More information on the Manager's ESG investment philosophy can be found in the Manager's report.

Manager
Since Abby Glennie took over the management of the Company, she has been repositioning the portfolio towards the Quality Growth Momentum process followed by the ASI Smaller Companies Team.

Chairman's Statement Continued

The change within the management team has added a growth focus to the investment process, which has enhanced and we believe will continue to enhance dividend growth within the portfolio in future years.

Annual General Meeting

The Annual General Meeting will be held at the offices of Aberdeen Standard Investments, 1 Bread Street, London, on Thursday 30 April 2020 at 12 noon. In addition to the formal business of the meeting, our portfolio manager (Abby Glennie) will provide a presentation on performance for the year and the outlook for smaller companies, and there will also be an opportunity for shareholders to meet informally with the Directors and representatives from the management team at the conclusion of the meeting. An invitation to the meeting is included with the Annual Report and shareholders are requested to complete and return this to the Company Secretary.

In the event that the developing situation surrounding COVID-19 should affect the plans to hold the AGM on 30 April 2020 the Company will update shareholders through an announcement to the London Stock Exchange and will provide further details on the Company's website. The Board would encourage all shareholders to exercise your votes in respect of the meeting in advance. This should ensure that your votes are registered in the event that attendance at the AGM might not be possible.

Continuation Vote

This year the Company's continuation vote, which takes place every 5 years, will be included in the formal business of the Annual General Meeting as an ordinary resolution and we hope that shareholders will vote in favour.

Outlook

Markets were resilient during 2019, despite many uncertainties, few of which have yet resolved themselves. We remain positive that the Manager's investment process is robust and capable of producing sustained dividend growth through the investment cycle.

Robert Lister,
Chairman
12 March 2020

Investment Manager's Review

Abby Glennie,
Aberdeen Asset
Managers Limited

Overview

2019 saw a very strong period of performance from the Trust, with outperformance in reasonably buoyant market conditions. This continues the long term track record of the Company. We were pleased to see the discount narrow through the period with a total return increase in the Company's share price by 57.7% over the year, having entered 2019 at wider discount levels.

There were many external uncertainties: Brexit, uncertainty in the UK Parliament, President Trump, and trade tensions between the US and China. Despite these, markets have remained resilient over the period. The general election outcome then provided a relief rally near the end of the year, with particular optimism being reflected in share prices of some of the more domestically exposed smaller companies. Entering the year, valuations on UK equities looked attractive relative to other geographies, but the political uncertainty continued to make investors cautious. Companies and consumers however showed signs of ploughing on with life, perhaps given Brexit fatigue after 3 years of waiting, and economic growth and company reporting remained very solid through 2019. We saw signs of Brexit related issues in the fourth quarter, in particular with increased profit warnings, many of which blamed "Brexit" and also more caution over delayed decision making in both public and private end markets.

It was evident in 2019 that the Smaller Companies universe lagged other categories through the year, with FTSE Small Cap ex IT index delivering a total return of 17.7%, lagging the FTSE 250 ex IT index with a return of 30.8%, and even the FTSE All Share index at 19.2%. The Numis Smaller Companies ex IT index returned 25.2%. This was influenced by the more domestic exposure within the small cap space, and investor sentiment towards the challenges those businesses are facing currently. We did see some relief on that with the general election, and strength in the small cap space, but ,as a whole, 2019 was a year where the strongest performing index was in the Mid Cap space which is more internationally exposed. Investors have looked overseas for areas of growth and resilience, and less volatility; with many believing the uncertainty of Brexit would have significantly negative impacts on UK businesses this year.

The Company's Net Asset Value (NAV) total return was +34.4%, which demonstrates significant outperformance relative to the benchmark return for the FTSE Small Cap ex Investment Companies of +17.7%. Long term performance also remains very favourable over 3 and 5 year time periods, with 3 years NAV growth of +52.6% vs benchmark of +17.3%, and 5 year NAV growth of +87.2% vs benchmark of +49.1%.

The UK market, and sometimes even more so at the small end, contains a wide and diverse range of companies. Through our bottom up stock selection focus we identify businesses which have Quality, Growth and Momentum characteristics, with an income balance. The manager does not look to take macroeconomic calls or time the cycle, but focuses on identifying businesses which they believe have the levers and ability to grow in a sustainable manner, despite any external distractions the economy might experience. In difficult market environments and times when economic growth slows, quality is a characteristic they believe comes into even more focus. Quality businesses, with healthy balance sheets, management teams with a strong pedigree, good corporate governance and strong competitive positions, have the ability to be resilient through more difficult periods, and even improve their positioning when peers may be struggling.

> 2019 was a very strong period of performance for the Trust, with outperformance of 16.7%. This continues the long term track record of the Company.

Equity Portfolio

Stock selection was a significant contributor to the outperformance of the Trust over 2019. It is pleasing to see many of the stocks listed as key contributors in the first half of the year have remained so for the full year, showing a consistency of performance. It also highlights part of our investment process which is "Run Your Winners" as we are long term investors in these businesses.

Aveva was the largest contributor to performance, with share strength remaining consistent given excellent reporting and earnings upgrades through the year. The integration with Schneider has been fairly seamless, with new product innovation using combined skills and technology, a wider addressable market, and signs of successful cross selling. **Intermediate**

Investment Manager's Review Continued

Capital shares remained very solid, delivering strong earnings upgrades and also buoyant increases to dividend expectations. Forecasts for Dividend Per Share at the start of the year were around 38p per share, but finished the year around 45p: a significant step up in expectations. This dividend increase also highlights the confidence management have for the outlook of the business. Fundraising by the company through the year has been at attractive levels, increasing the growth potential and visibility of the company. We continue to believe the operational changes made over recent years mean the business is higher quality and less cyclical than historically. They are increasingly asset light, with more third party capital, and with long term closed end funds we view these as lower risk if we go into tougher economic environments. **Games Workshop**, a holding started early in 2019, was one of the top contributors to performance and has continued to deliver impressive growth. Sales growth is strong across all three channels (retail, trade, online), and the business is increasing its international focus, particularly in the US. A key change for the business has been the focus on marketing and engagement in social media, which has attracted new customers and also helped sustain the attractions for existing customers. Although they don't have a stated dividend payout policy, we were pleased to see the increases in earnings expectations through the year translated into higher dividends than forecast. We also saw strong performance from a number of other long term holdings; **Assura, Discoverie, Unite** and **Dechra.** These businesses all continue to evolve, and hold many of the quality growth momentum characteristics we look for in investments. **Unite, the student accommodation provider,** made a transformational deal this year, acquiring Liberty Living in an earnings accretive deal. There were some attractive low risk synergies by bringing the two businesses together, they dominate the market at over twice the number of beds of the nearest rival, and there now stands a larger more dominant platform from which to grow. **Dechra** continue to evolve their product portfolio, through both organic and acquisition led investments. They are very geographically diverse now, and increasingly diverse by product reducing the risk around any single product. **Assura**, one of the higher yielding but lower growth investments, has shown a very strong year of share price performance. They continue to increase their pipeline of acquisition and development opportunities, and have attractions to investors with their low risk profile helped by government backed income, high barriers to entry, and limited risks around the recent general election outcome. **Discoverie** produced another strong year, with their focus on specific structural growth sectors proving resilient in a period of economic volatility. Another newer holding in the portfolio which performed well was **AJ Bell**, a consistent performer since IPO. This founder-led business has a strong market positioning and is delivering strong growth through attracting new clients. We feel confident that Andy Bell has instilled a very strong collegiate culture in the firm, which gives it a solid grounding for growth and continued strong customer service. We are very pleased to see a mix of long time holdings and new positions both contributing positively to the top performers, and will continue to look to run our winners where the investment case still remains positive, whether those be new or existing stocks to the portfolio.

By far the most negative contributor to performance in the year was **Burford Capital**. Burford, the litigation finance business, was hit by a short report from Muddy Waters in August 2019 on which shares fell very heavily. Although the company has responded positively to many of the concerns raised in the report, shares have remained at depressed levels. The nature of the business and the lumpy recognition of profits mean it is very challenging for them to provide evidence fully to dismiss the concerns. The share price fall has been painful and disappointing and with a lack of clarity and conviction on the investment case from here, we have exited the holding. **Cineworld** was another holding which underperformed over the year. Whilst the investment case of the turnaround of the underinvested Regal cinema business in the US is still in place, the challenge has come from negativity towards the sector. Box office numbers across both the US and UK disappointed versus expectations, which created negative sentiment, but also challenged the revenue growth and free cash flow generation this year.

AG Barr has faced a challenging year, and the holding was exited in the period. They saw sales weakness across a number of their brands despite price cuts driving earnings downgrades. A share buyback helped protect shares in the first half, but a warning in July saw shares fall sharply. **Somero** faced some challenges in the year, firstly with weather in the US impacting construction activity, and then with some softness in Middle Eastern and European markets. This has impacted the earnings outlook, and lowered dividend expectations. We believe these market impacts are short term in nature, and their niche positioning puts them in a strong position over the long term.

The portfolio repositioning of the Trust started in 2018 continued somewhat through 2019, with portfolio turnover running at 28% in 2019, which is a higher level than we would expect over the long term. The portfolio is focused on investments which deliver attractive income yields, but also which have strong Quality, Growth and Momentum dynamics. The portfolio continues to have an attractive dividend yield, and through investing in faster growing businesses we look to focus on growth of income.

There have been a large number of new holdings over the year; during the first half **Kesko, Games Workshop, Paypoint, Somero, MJ Gleeson, Moneysupermarket, Barclays Bank 9% 2023-Perpetual,** and more recently **Sirius Real Estate, Alpha Financial Market Consultants, 4imprint, Softcat, Marshalls, Forterra and Strixx.** These investments exhibit those Quality Growth Momentum dynamics we look for, with attractive yields and score well on our stock screening tool, the Matrix**.** Further details of the investment rationale for two of these new holdings are provided in the investment case studies section.

Kesko is a Finnish business with high market share in Finnish food retail. This business has been successfully positioned with a unique offering that has protected it versus competitors, and should provide a solid defensive core. The next stage is an improvement in their Building and Technical business, which is business to business (B2B) and business to consumer (B2C). They have a strong balance sheet, which will allow them to do M&A. **Games Workshop** are driving strong growth from increasing online customer interaction, increasing trade accounts, new product launches, and store growth with increasingly global exposure. The capacity expansion of the new facility should provide further growth capabilities. They have a net cash balance sheet and the business is highly cash generative. **Paypoint,** is a relatively defensive player providing retail payment services. They have strong market positions across the service range in the UK, and their Romanian business is also well positioned with good growth opportunities. Their balance sheet is healthy and cash generation good. **Somero** has a very attractive matrix score and a high dividend yield. This US based manufacturer of concrete "screeds" continues to deliver strong growth and cash generation. Utilising their machinery means the quality of flat concrete flooring is significantly higher, but also the cost and time of laying is reduced, delivering a good return on investment to customers. They pay a good dividend and then supplement that with paying out 50% of cash above $15m. Somero suffered some downgrades post our investment, with weather impacts and weaker end markets. Whilst this has reduced the growth expectations of earnings and dividends, we believe the investment case remains intact given their unique market position and that the weaknesses are short term rather than structural.

Moneysupermarket has had a difficult couple of years, but both end markets and their operational strategy are seeing improvements. Under new management, they have reinvested in technology, with a real focus on personalisation. Building closer customer relationships means long term they should be able to spend less on customer acquisition. This would improve the quality of the revenue stream, through more repeat business, and also drive operational leverage. Shares sit on a discount to other platform stocks, and their free cash flow generation is very attractive. With a strong net cash balance sheet, they have announced a capital return to shareholders, however unfortunately the Trust struggled to build a full position in advance of this due to illiquidity, given that multiple funds were trading. They have an attractive core yield, supplemented this year by a special dividend. Results since we invested have been a little lacklustre, with some cyclical pressures in the Money segment, and impacts from Google algorithms in Insurance. We believe their competitive position remains strong, and the cash generation should provide an attractive source of income going forward. **MJ Gleeson** was added after another good meeting with management. It has an attractive score on our screening tool, the Matrix, with a dividend yield over 4%. Whilst shares do get impacted by sentiment on housebuilders, MJ Gleeson has a very unique market position; their affordability, simple operational structure, unique client base and ability to expand their model into new regions through replication. They have a well-placed strategic land business in the South, which can either generate a steady profit stream over years or could be sold and generate an upfront monetisation of that business, which we expect might be returned to shareholders. It trades at a cheap valuation of 14x P/E for solid high single/low double digit EPS growth. We also added a holding in **Barclays Bank 9% 2023 bond** (Perpetual rated BB+/Ba2/BBB). The upside in holding Barclays comes from the potential for early redemption prior to the Oct 2023 first call date, as the bond is non-compliant for capital adequacy purposes post January 2022.

Sirius Real Estate is a Germany based real estate company who buy and let a range of real estate assets, with a focus on improving capacity utilisation of sites. Focus is on regional space in Tier 1-2 cities, with a mix of usage (office, storage, production, smartspace etc). Their flexibility in usage allows them to utilise as much of the space as possible, and also be flexible through cycles. They should be able to continue to deploy their balance sheet into acquiring new assets, and also recently started a joint venture structure with Axa.

Alpha Financial Markets Consulting is a founder-run consultancy, focused on financial markets. They are a challenger in the space to the large consultants, and are taking market share. Utilisation levels of consultants remain high, with a broad spread of customers, and growth driven by both existing customers and new business wins. The end market environment with regulation drivers and consolidation are a positive for them.

Investment Manager's Review Continued

In tougher markets cost pressures on customers might help activity levels, with project work and outsourcing of niche work.

4imprint is a platform for the sale of promotional materials, across the US. In a very fragmented market they have around a 3% market share, which makes them the leader, so there is plenty of room for growth. They continue to have seen both strong organic growth and attractive returns on their incremental marketing investment. Revenue growth is driven by volumes (new and existing customers), with marginally positive average order value. They have a consistent track record of beating forecasts and driving earnings upgrades, and their dividend forecasts have been upgraded. Their balance sheet is strong with net cash, and they did also pay a special dividend in 2018. Risks are focused around economic slowdown in the US and Trump tariffs, however with a leading but still small market share in a fragmented industry this provides some growth protection in a downturn.

Forterra, the bricks manufacturer, is delivering growth despite being capacity constrained in their Bricks and Blocks business. They have some pricing power, and also are making operational efficiencies. The acquired Bison business is bringing new product development and growth opportunities. They have a healthy balance sheet and have increased their pay-out ratio to 45% (from 40%) as the next couple of years are lower growth before the capacity expansion in bricks is in production (+16% capacity in bricks), and with good cash generation in the ongoing business they want to reward shareholders for waiting. Concerns from the market would be around cyclicality, but the peers are very controlled as well on capital allocation and expansion, and there looks to be continued support in terms of supply/demand, particularly in new build housing, to support capacity utilisation at high levels and allow price rises.

Strix, the global market leading kettle safety component manufacturer, has a 30 year track record of profitability. They have a new highly cost-competitive range being rolled out that should ensure their market dominance is maintained. Strix delivers high margins reflecting a high service element, acting as a design and solutions intermediary between brand owners, retailers and the Chinese companies that dominate OEM manufacture. Strix's IP creates a barrier to entry, which means the business should be capable of maintaining good margins into the foreseeable future. Market leadership means they can invest in R&D to keep ahead of the cost curve as well as being at the forefront of new developments, including more niche products and electronic thermostatic controls. In addition to the cash generative core business, management are investing in new product development to provide growth.

Softcat, a value added reseller of IT equipment operating in the UK, has a #2 market position with 7% share, slightly behind Computacenter. In recent years they have outgrown the market, all via organic growth. The market is very fragmented and with their excellent service levels, a good reputation, and good access and terms for product, we think they can continue to gain share. The business is very broadly spread in terms of products it sells, and has a diverse customer base across Enterprise/Governments/SMEs. The average spend is £14k, so whilst they might have some larger customers and people spending heavily on an upgrade project, a lot of their exposure is on day to day IT spend. Softcat have an extremely strong culture, something they are protective of. In a competitive sales organisation, having a strong culture is critical. The business is capital light, they don't really need to hold stock, they have no debt and have a net cash balance sheet. They grow their ordinary dividend broadly in line with earnings, and then look to return excess cash through special dividends. They have paid special dividends every year since 2016.

Marshalls, the block paving business, has a strong track record of earnings upgrades, a high quality management team, a strong balance sheet position and attractive returns on capital. Our engagement with management has been very encouraging for the ability to continue to grow at attractive growth rates. Their product innovation continues to create new growth opportunities, and they feel many of their end markets are in structural growth (new build housing, infrastructure, water management etc.). This growth delivers strong cash generation, and a build-up of cash is forecast. In reality this won't happen; they will invest organically, they will look to acquire and have a strong pipeline although timing is hard to judge, or they will return cash if these deals do not come through. They have a number of operational productivity improvements, such as restructuring of manufacturing sites and distribution savings. There are many differences from the last downturn (balance sheet, product diversity, ability to flex capacity, banking facilities in place) which gives us encouragement about the resilience Marshalls should have if the environment toughens. Management are now focused on 2025 plans, showing their commitment to the business long term.

We exited holdings in **Scandinavian Tobacco, Victoria, Smart Metering Systems, Elementis, Genus, Anglian Water** bonds, **RPC** (post bid) all in the first half of the year. More recently we also exited positions in **Euromoney, Stock Spirits, Cairn Homes, Oxford Instruments, Hostelworld, AG Barr** and **Manx Telecom** (post bid). We also exited the four preference share holdings; **Balfour Beatty convertibles, Aviva, General Accident and**

Ecclesiastical. Whilst the yields on these preference shares was appealing, we felt we could obtain attractive yields in equities while also achieving growth in income for the portfolio.

We have exited the position in **Hostelworld**, the online booking platform focused on the hostel market. Whilst the new CEO has been implementing his strategy, we have seen earnings downgrades from weak performance and cost investment. Management are pinning a lot on the TiPi acquisition and the technology it brings being rolled out across the hostel estate. Our concerns are that this is a blue sky vision. A key concern around the environment is the increase in pay per click advertising, which is causing significant margin pressure, and we think could be considered to be structural. We also have a concern that their high dividend pay-out ratio is not conducive to their desire to invest in the business, as we may see that level reduced.

We exited holdings in **AG Barr** (earnings downgrades driven by volume pressures across brands) and **Cairn Homes** (earnings downgrades from tougher pricing and demand**). Euromoney, Stock Spirits,** and **Oxford Instruments** joined the list of less preferred names from the first half of 2019, with these businesses failing our Quality, Growth, Momentum focus. We felt there were more attractive investment opportunities elsewhere in the universe, so used these names as a source of cash. We switched out of the **Anglian Water** bond, into Barclays Bank. The yield was more attractive and the switch reduced the duration by 3 years, driving less sensitivity to changes in government bond yields.

Whilst we continue to run our winners, we did take some profit in names such as **Aveva** and **Dechra** to keep position sizes under control.

Environmental Social Governance (ESG)

ESG analysis is embedded throughout our investment process; in our research and in our engagement with management teams. We believe ESG is a financially material aspect of investment, truly a driver of returns. In our ESG focus we analyse both risks and opportunities within our companies, and areas where through our engagement with these businesses we can engage and advise companies to improve their ESG exposures or disclosures. These cases are opportunities to drive stock re-ratings. Within smaller companies we think there is real opportunity to add value in ESG, where these businesses are often under covered by external ESG research and also where businesses sometimes lack internally focused ESG expertise. As fund managers we work closely with our well invested ESG team internally, so are well resourced for ESG analysis and engagement.

> A critical part of our research is analysing the environment, social and governance characteristics of businesses and looking for both risks and opportunities.

Investee Company Stewardship

We have engaged with **Burford Capital** on a number of occasions post the release of the Muddy Waters short selling note. The importance we placed on their governance had already been conveyed to the management on previous interactions, and we believed they were making progress. This has been accelerated post the Muddy Waters research. They have appointed a new CFO, moved towards a dual US listing, adjusted some senior roles, planned changes to the board and are looking to improve disclosure of management remuneration arrangements. However, despite progress, we decided to exit the holding post the period end.

Engagement works in both directions, and **Softcat** were keen to meet with us. The Chair was keen to get our feedback on the quality of the management team, as well as discuss views on his tenure as Chairman. Current Chairman Martin Hellawell was previously CEO of the business for 12 years, stepping up in 2018.

We met with the recently appointed Chair of **Moneysupermarket** to discuss strategy, board development and risk. The new Chair has been on the board for a number of years and is supportive of the strategy and the executive team. The company is progressing with its Reinvest strategy and the board has set specific milestones to monitor in terms of their personalisation and growth agendas. On risk, cyber-security is a key focus and is watched closely by the board, as is the competitive environment. The company also continues to seek to develop the board through recruitment of key non-executive director roles.

Fixed Income portfolio

Government bond yields fell during 2019 as economic data remained soft and US/China trade tensions persisted. The US Federal Reserve cut rates on three occasions reversing some of its tightening of previous years. While a number of other central banks also eased policy measures in response to slower activity levels the Bank of England maintained policy rates at 0.75%, although it did continue its asset purchase programme designed to limit volatility in bond markets. Credit spreads were tighter during the period with markets taking comfort from benign economic performance of developed economies and from the support of central banks. UK credit lagged other markets until

Investment Manager's Review Continued

the final quarter and, more specifically, the period after the general election.

UK corporate bond spreads tightened by approximately 45 basis points over the year with all areas of the market attracting positive investor flows. The short end – where the Trust's holdings are concentrated – continues to benefit from flows out of money market funds as investors hunt for higher yields. Although the market has enjoyed a strong year, the outlook remains reasonably constructive with the main risk being an economic slowdown. Bonds issued by banks and insurers were amongst the best performers of 2019, along with lower quality and cyclical corporates.

The Trust's holdings performed well in this environment. The risk premium (spread) of the Barclays 9% perpetual bond tightened over 60 basis points over the period with UK banks rallying particularly in the final quarter. The outcome of the UK general election and the results of the Bank of England's stress tests were both very positive for the sector. The very short dated Scottish and Southern Electric hybrid bond was also very strong after the election. The election outcome was also helpful for this bond with Labour's nationalisation policy on utilities previously overhanging the sector. The spread of this bond tightened significantly (over 150 basis points) and it is still expected to be called in 2020. For the time being the yield remains attractive although alternative investment opportunities will be considered over the coming months.

The outlook for fixed income, like other asset classes, is uncertain. Yields are likely to stay low and policy rates will be accommodative, which is supportive for investment grade credit. Shorter dated credit appears relatively attractive and investment grade bonds in this sector will continue to enjoy an environment of low volatility.

Outlook

We have enjoyed many years of strong economic growth and bull markets, and investors globally are aware that can't last forever. We believe we are certainly nearer the next economic slowdown than the last one. Within the UK specifically, it is difficult to tell at this stage whether some of the areas of slowdown we saw in Q4 will continue throughout 2020, or were short term driven by the general election uncertainty.

Our investment process is focused on fundamental, bottom up, research. We are not taking portfolio decisions based on macroeconomic views. Stock analysis remains the key driver of our decision making process. Recent periods have given us confidence that this remains a long term driver of outperformance. Looking back to the 2016 Brexit vote, small caps were heavily de-rated in the aftermath panic. In hindsight this was an excellent buying opportunity as they have rallied strongly since. Companies have been resilient despite these external factors. We believe in our investment process. This process guides us to invest in companies which have strong management teams leading their strategies, which have a number of growth levers to pull, which can drive growth independent of external conditions and which are resilient and have strong financial positions. A critical part of our research is also analysing the environment, social and governance characteristics of businesses and looking for both risks and opportunities. We believe companies who can exhibit strong ESG credentials are higher quality, and lower risk investments.

The UK smaller companies universe remains a wide, diverse grouping of businesses and investment opportunities. Our process drives us towards investing in a range of different businesses, and both domestic and international exposures. The investment process followed by our team has been utilised for well over 20 years and tried and tested through various economic cycles. The 'Matrix' remains a core part of that process, and has provided a consistent backing through the years. This gives us confidence that despite what factors we may see externally, our process will focus us towards backing businesses which can drive sustained long-term outperformance across the portfolio.

Aberdeen Asset Managers Limited*
12 March 2020

**on behalf of Aberdeen Standard Fund Managers Limited. Both companies are subsidiaries of Standard Life Aberdeen plc*

Overview of Strategy

Business Model

The business of the Company is that of an investment company which conducts its affairs in order to qualify as an investment trust for UK capital gains tax purposes.

The Company aims to attract long term private and institutional investors looking to benefit from the income and capital growth prospects of UK smaller companies. The Directors do not envisage any change in this activity in the foreseeable future.

Investment Objective and Purpose

The objective and purpose of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Investment Policy

The Company invests in equities, corporate bonds and preference shares. The primary aim of the Company is to invest in the equity shares of smaller companies listed on a regulated UK stock market in order to gain growth in dividends and capital. The Company employs gearing with the primary intention of enhancing income and to a lesser extent, long-term total returns. The majority of the additional funds raised by gearing is invested in investment grade corporate bonds and preference shares.

Gearing

The level of gearing varies with opportunities in the market and the Board adopts a prudent approach to the use of gearing. The total level of gearing will not exceed 25% of the Company's net assets, at the time it is instigated, and within that gearing limit, the equity portfolio gearing will not exceed 10%, at the time it is instigated.

Risk diversification

The investment risk within the portfolio is managed through a diversified portfolio of equities, corporate bonds and preference shares. The Company does not invest in securities that are unquoted at the time of investment. A maximum of 5% of the Company's total assets can be invested in the securities of one company at the time of purchase. Although the Company is not permitted to invest more than 15% of its total assets in other listed investment companies (including investment trusts), the Board currently does not intend to invest in other listed investment companies.

Benchmark index

Numis Smaller Companies excluding Investment Trusts (total return) –effective from 1 January 2020; FTSE Small Cap Index (excluding Investment Trusts) (total return) – up to 31 December 2019

Management

The Board has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager") to act as the alternative investment fund manager ("AIFM"). The Company's portfolio is managed on a day-to-day basis by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a delegation agreement in place between ASFML and AAML. AAML and ASFML are both wholly owned subsidiaries of Standard Life Aberdeen plc.

Delivering the Investment Policy

Equity Investment Process

The equity investment process is active and bottom-up, based on a disciplined evaluation of companies through company meetings with the Investment Manager. Stock selection is the major source of added value, concentrating on quality, growth and momentum characteristics.

Great emphasis is placed on understanding a company's business and understanding how it should be valued. New investments are not made without the Investment Manager having first met management of the investee company and undertaken further analysis to outline the underlying investment merits. Top-down investment factors are secondary in the equity portfolio construction, with diversification and formal controls guiding stock and sector weights.

Fixed Income Investment Process

The fixed income investment process is an active investment style which identifies value between individual securities. This is achieved by combining bottom-up security selection with a top-down investment approach. Investments in corporate bonds and preference shares are also managed by investment guidelines drawn up by the Board in conjunction with the Investment Manager which include:

- No holding in a single fixed interest security to exceed 5% of the total bond issue of the investee company; and
- Maximum acquisition cost of an investment grade bond is £1 million and of a non-investment grade bond is £500,000.

Key Performance Indicators ("KPIs")

The Board uses a number of financial performance measures to assess the Company's success in achieving its objective and determining the progress of the Company in pursuing its investment policy. The main KPIs identified by the Board in relation to the Company which are considered at each Board meeting are as follows:

Overview of Strategy Continued

KPI	Description
Performance of net asset value against the benchmark index	The Board considers the Company's net asset value total return figures to be the best indicator of performance over time and is therefore the main indicator of performance used by the Board. The Board measures performance against the benchmark index. The returns over 1, 3 and 5 years are provided on page 21 and a graph showing performance against the benchmark index is shown on page 22. The Board also monitors performance relative to competitor investment trusts over a range of time periods, taking into consideration the differing investment policies and objectives employed by those companies.
Revenue return and dividend growth	The Board monitors the Company's net revenue return and dividend growth through the receipt of detailed income forecasts and considers the level of income at each meeting. The Company aims to grow the dividend at a level above CPI. A graph showing the dividends and yields over 5 years is provided on page 22.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. A graph showing the share price total return performance against the benchmark index is shown on page 22.
Discount/premium to net asset value	The discount/premium relative to the net asset value per share represented by the share price is closely monitored by the Board. A graph showing the share price discount/premium relative to the net asset value is shown on page 22.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its business model, financial position, future performance, solvency or liquidity and prospects. The Board has in place a robust process to identify, assess and monitor the principal risks and uncertainties facing the Company and to identify and evaluate newly emerging risks. A summary of the principal risks together with their mitigating action is set out below.

The Board has adopted a risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers. This risk matrix is reviewed formally every six months but risks, including emerging risks, are, if appropriate, discussed by the Board at, or between, formal Board quarterly meetings.

The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet or they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are on the Company's website.

Description	Mitigating Action
Investment and Market risk The Company is exposed to fluctuations in share prices and a fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds. The Company invests in smaller companies which may be subject to greater volatility than similar larger companies.	The Board has appointed ASFML to manage the portfolio within the remit of the investment policy. The Board monitors the results and implementation of the Manager's investment process and reviews the investment portfolio, including diversification and performance, at each meeting.
Investment portfolio management Investing outside of the investment restrictions and guidelines	The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has

set by the Board could result in poor performance and inability to meet the Company's objectives.	been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and monitors compliance with the guidelines through regular reports from the Manager, including performance reporting.
Gearing risk Gearing has the effect of accentuating market falls and market gains. The inability of the Company to meet its financial obligations, or an increase in the level of gearing, could result in the Company becoming over-geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.	The Board monitors the Company's actual gearing levels (including equity gearing) in relation to its assets and liabilities and reviews the Company's compliance with the principal loan covenants. The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million three year variable rate loan. The facility commenced in April 2018 and at 31 December 2019, £7 million was drawn down (£5 million fixed rate and £2 million variable rate).
Income and dividend risk The ability of the Company to pay dividends and any future dividend growth will depend over the longer term on the level of income generated from its investments and the timing of receipt of such income by the Company. In the shorter term the size of the Company's revenue reserves will determine the extent that shareholder dividend payments can be less volatile than the dividends actually paid by the companies in which the Company invests. Accordingly there is no guarantee that the Company's dividend objective will continue to be met.	The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting and the Manager has developed detailed and sophisticated models for forecasting and monitoring dividend payments.
Operational risk The Company is dependent on third parties for the provision of services and systems, in particular those of the Manager and the Depositary. Failure by a third party provider to carry out its contractual obligations could result in loss or damage to the Company. Disruption, including that caused by information technology breakdown or other cyber-related issue, could prevent the functioning of the Company.	Written agreements are in place defining the roles and responsibilities of third party providers and their performance is reviewed on an annual basis. The Board reviews regular reports from the Manager on its internal controls and risk management systems, including internal audit and compliance monitoring functions. The Manager reports to the Board on the control environment and quality of service provided by third parties, including business continuity plans and policies to address cyber crime. Further details of internal controls are set out in the Audit Committee's Report.

In addition to these risks, the Company is exposed to the effects of geopolitical instability or change which could have an adverse impact on stockmarkets and the Company's portfolio. The potential impact of Brexit remains an economic risk for the Company, principally in relation to the underlying companies within the portfolio and on the Manager's operations. Whilst most of the portfolio holdings are UK-based companies, many have operations overseas with broad and geographically diverse earnings streams. Aberdeen Standard Investments has a significant Brexit program in place aimed at ensuring that they can continue to satisfy their clients' investment needs post Brexit.

The outbreak of the recent global COVID-19 virus has resulted in business disruption and stockmarket volatility. The extent of the effect of the virus, including its long term impact, remains uncertain. The Manager has implemented extensive business continuity procedures and contingency arrangements to ensure that they are able to continue to service their clients, including investment trusts.

Overview of Strategy Continued

In all other respects, the Company's principal risks and uncertainties have not changed materially since the year end.

Promoting the Success of the Company

The Board is required to report on how it has discharged its duties and responsibilities under section 172 of the Companies Act 2006 (the "s172 Statement"). Under section 172, the Directors have a duty to promote the success of the Company for the benefit of its members as a whole, taking into account the likely long term consequences of decisions, the need to foster relationships with the Company's stakeholders and the impact of the Company's operations on the environment.

The Company consists of four Directors and has no employees or customers in the traditional sense. Without a variety of external stakeholders, the Company can neither exist nor flourish. Our shareholders own us and the Company's Manager, ASFML, provides investment management services. A number of other stakeholders support us by providing regulatory and other services, including secretarial, administration, depositary, custodial, banking and audit services. For example, BNP Paribas is our Depository and E&Y is our auditor.

Our relationship with each is different. We meet the Manager on a quarterly basis but might meet our investors, both institutional and retail, only once a year. We often need to balance the interests of different stakeholders, for example, in agreeing their fees.

The Board's principal concern has been, and continues to be, the interests of the Company's shareholders and potential investors. The Manager undertakes an annual programme of meetings with the largest shareholders and reports back to the Board on issues raised at these meetings. The Board encourage all shareholders to attend and participate in the Company's AGM and can contact the Directors via the Company Secretary. Shareholders and investors can obtain up-to-date information on the Company through its website and the Manager's information services and have direct access to the Company through the Manager's customer services team or the Company Secretary.

The Board believes that one of the key strategies of the Company, for its long-term stability and sustainability, is to develop share ownership among the growing retail and self-directed investors. Approximately 49% of the shares are currently held by such investors. In order to raise and maintain awareness of the Company, the Board participates in the promotional programme run by the Manager on behalf of a number of investment trusts under its management. The purpose of the programme is both to communicate effectively with existing shareholders and to reach more new shareholders, thus improving liquidity and enhancing the value and rating of the Company's shares. Regular reports are provided to the Board on promotional activities as well as analysis of the shareholder register.

As the Company has no employees, the culture of the Company is embodied in the Board of Directors. In seeking to deliver the Company's investment objective for shareholders, our values are trust and fairness while challenging constructively, and in a respectful way, our advisers and other stakeholders.

The Board undertakes a robust evaluation of the Manager, including investment performance and responsible ownership, to ensure that the Company's objective of providing sustainable income and capital growth for its investors is met . The portfolio activities undertaken by the Manager on behalf of the Company can be found in the Manager's Review and details of the Board's relationship with the Manager and other third party providers, including oversight, is provided in the Statement of Corporate Governance.

During the year, the Board focused on the performance of the Manager in achieving the Company's investment objective within an appropriate risk framework. In the last year, our key decisions which affected stakeholders were: the declaration of four quarterly dividends which in total represented an increase of 12.2% versus the previous year, the decision by the Management Engagement committee to continue with the appointment of the Manager and the reappointment of our advisers and service providers.

The Board is supportive of the Manager's philosophy that Environmental, Social and Governance (ESG) factors are fundamental components for responsible investing. ESG considerations are embedded in the investment process undertaken by the Manager and the Manager dedicates a significant amount of time and resource on focusing on the ESG characteristics of the companies in which they invest. Further details of how the Manager have sought to address ESG matters across the portfolio are disclosed in the Statement of Corporate Governance.

The Manager is also a tier 1 signatory of the UK Stewardship Code which aims to enhance the quality of engagement by investors with investee companies in order to improve their socially responsible performance and the long term investment return to shareholders.

The Company is a long term investor and the Board has in place the necessary procedures and processes to continue to deliver the Company's investment proposition and to promote the long term success of the Company for the benefit of its shareholders and stakeholders.

Duration

The Company does not have a fixed life. However, the Company's articles of association require that an ordinary resolution is proposed at every fifth Annual General Meeting to allow the Company to continue as an investment trust for a further five year period. The present five year mandate expires in 2020 and a vote on continuation will therefore be proposed at the forthcoming Annual General Meeting on 30 April 2020.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge represented on the Board in order to allow the Board to fulfill its obligations. Each Director brings different skills and experience to the Board. The Board also recognises the benefits, and is supportive, of the principle of diversity in its recruitment of new Board members. At 31 December 2019, the Board consisted of three males and one female.

Environmental, Social and Human Rights Issues

The Company has no employees as the Board has delegated the day-to-day management and administrative functions to Aberdeen Standard Fund Managers Limited. There are therefore no disclosures to be made in respect of employees.

Modern Slavery Act

Due to the nature of the Company's business, being a company that does not offer goods and services to customers, the Board considers that it is not within the scope of the Modern Slavery Act 2015 because it has no turnover. The Company is therefore not required to make a slavery and human trafficking statement. In any event, the Board considers the Company's supply chains, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

Socially Responsible Investment Policy

The Company's socially responsible investment policy is outlined in the Statement of Corporate Governance.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from the operations of its business, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Viability Statement

The Company does not have a formal fixed period strategic plan but the Board formally considers risks and strategy at least annually. The Board considers the Company, with no fixed life, to be a long term investment vehicle, but for the purposes of this viability statement has decided that a period of three years is an appropriate period over which to report. The Board considers that this period reflects a balance between looking out over a long term horizon and the inherent uncertainties of looking out further than three years.

In assessing the viability of the Company over the review period the Directors have focused upon the following factors:

- The principal risks detailed in the Strategic Report on pages 16 to 17 and the steps taken to mitigate these risks;
- The investment objective in the current environment remains attractive and the Company has continued to deliver sustained dividend growth as well as good capital growth;
- The outlook for the Company and its portfolio as provided in the Chairman's Statement and the Investment Manager's Review
- The Company is invested in readily realisable listed securities;
- The level of revenue surplus generated by the Company and its ability to achieve its dividend objective;
- The level of gearing is closely monitored. The Company has the ability to renew or repay its gearing:
- The impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values; and
- The feed-back from major shareholders on the five year continuation vote to be proposed at the AGM in April 2020.

When considering the risk of under-performance, the Board reviewed the impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values. The Board also considered matters such as significant economic or stock market volatility, a substantial reduction in the liquidity of the portfolio, or changes in investor sentiment could have an impact on its assessment of the Company's prospects and viability in the future and the period over which the performance of the Trust is monitored. The results of the stress tests have given the Board comfort over the viability of the Company.

Overview of Strategy Continued

Accordingly, taking into account all of these factors, the Company's current position and the potential impact of its principal risks and uncertainties, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of this Report.

Robert Lister,
Chairman
12 March 2020

Performance

Performance (Total Return)

	1 year % return	3 year % return	5 year % return
Net asset value[A]	+34.4	+52.6	+87.2
Share price (based on mid price)[A]	+57.7	+83.6	+117.1
FTSE Small Cap ex Inv Trust Index	+17.7	+17.3	+49.1
FTSE All-Share Index	+19.2	+22.0	+43.8
Numis Smaller Companies ex Inv Trust Index	+25.2	+26.6	+55.6

[A] Considered to be an Alternative Performance Measure. Further details can be found on page 76.

Ten Year Financial Record

Year to 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue available for Ordinary dividends (£'000)	1,336	1,329	1,257	1,496	1,579	1,666	1,622	1,716	1,997	2,206
Per share (p)										
Net revenue return	6.04	6.01	5.69	6.77	7.14	7.54	7.34	7.76	9.03	9.98
Net dividends paid/proposed	6.00	6.00	6.05	6.25	6.45	6.65	6.85	7.05	7.35	8.25
Total return	47.94	(16.70)	41.92	74.73	(5.00)	29.96	19.79	85.19	(48.74)	96.49
Net asset value per share	156.2	133.5	169.5	238.0	226.6	249.9	262.9	341.1	285.2	373.9
Shareholders' funds (£m)	34.5	29.5	37.5	52.6	50.1	55.3	58.1	75.4	63.1	82.7

Cumulative Performance

Rebased to 100 at 31 December 2009

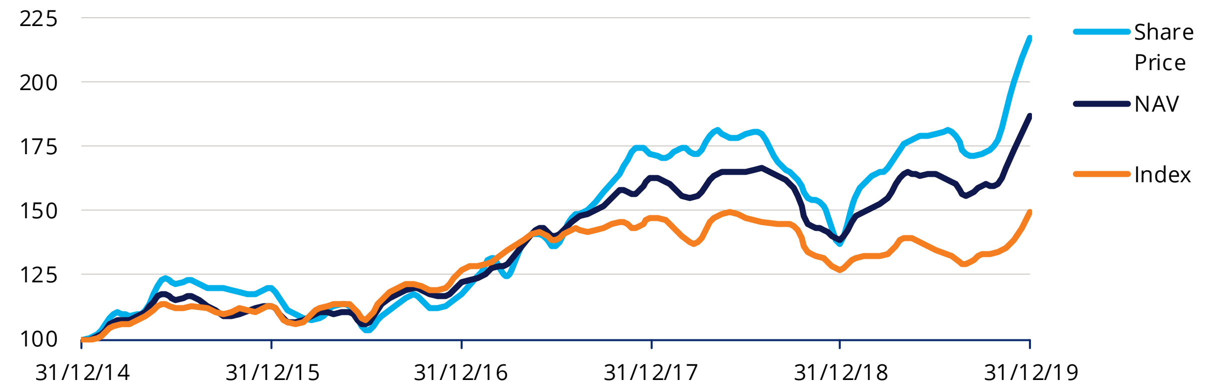
As at 31 December	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NAV performance	100.0	136.4	116.6	147.9	207.8	197.8	218.2	229.5	297.8	249.0	326.4
NAV total return[A]	100.0	143.3	127.3	168.3	244.1	239.0	270.9	293.1	389.6	332.8	447.3
Share price performance	100.0	141.6	111.3	159.5	234.7	193.7	225.8	214.2	303.2	235.8	361.1
Share price total return[A]	100.0	150.3	123.9	186.7	284.0	241.6	290.8	285.6	416.9	332.6	524.6
FTSE Small Cap ex Inv Trust Index performance	100.0	113.0	93.0	123.0	172.5	164.1	180.4	197.0	221.4	184.6	210.1
FTSE Small Cap ex Inv Trust Index total return	100.0	116.9	99.2	135.2	194.5	189.2	213.8	240.6	278.2	239.8	282.2
Numis Smaller Companies ex Inv Trust performance	100.0	125.1	110.5	139.5	185.6	177.1	190.3	205.5	238.9	196.2	237.6
Numis Smaller Companies ex Inv Trust total return	100.0	128.5	116.8	151.7	207.8	203.9	225.5	250.5	299.4	253.4	317.2

[A] Total return figures are considered to be an Alternative Performance Measure and based on reinvestment of net income.

Performance Continued

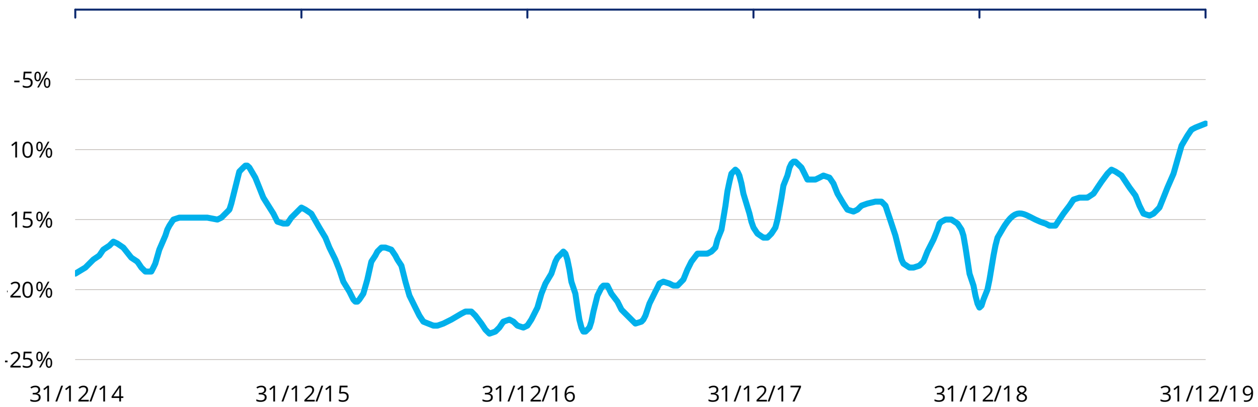
Total Return of NAV and Share Price vs FTSE Smaller Companies exc Inv Trust Index

Figures are total return and have been rebased to 100 at 31 December 2014



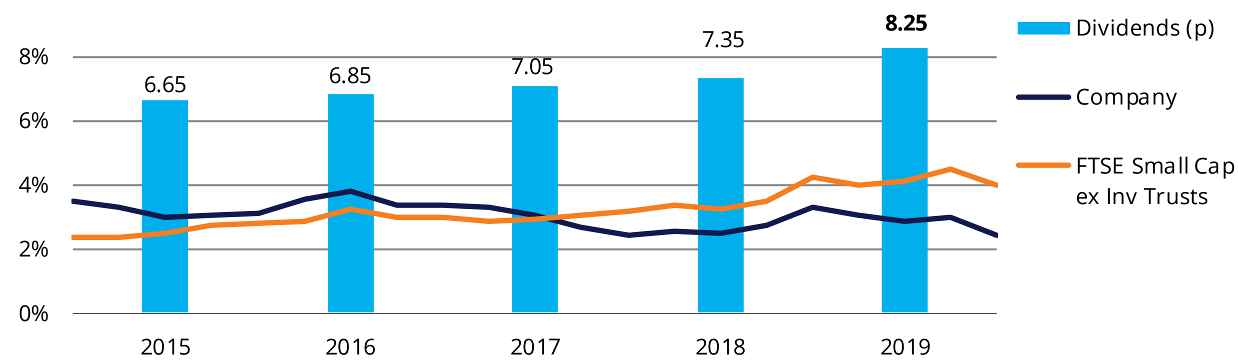
Share Price Discount to Net Asset Value

Five years to 31 December 2019



Dividend (p) and Company and Benchmark Yield (%)

Five years to 31 December 2019



Portfolio

The Trust had a very successful year with a Net Asset Value (NAV) total return of 34.4% compared to a benchmark return of 17.7%. Long term performance remains strong, with NAV returns of 52.6% and 87.2% over 3 and 5 years respectively.

Hollywood Bowl
Leisure operator focused on ten pin bowling in the UK. Growth driven by refurbishments, new site openings, and acquisitions; generating attractive returns and cash generation.

Ten Largest Investments

As at 31 December 2019

Aveva Group
One of the world's leading engineering, design and information management software providers to the process, plant and marine industries. Aveva's world-leading technology was originally developed and spun out of Cambridge University and today the business operates in 46 countries around the world.

DiscoverIE Group
DiscoverIE Group is a supplier of niche electronic products, manufacturing customs designed and built electronics to industrial and medical companies across Europe and South Africa.

Intermediate Capital Group
Global alternative asset manager in private debt, credit and equity.

Assura
Assura is a long-term investor and developer of primary care property, working with general practitioners, health professionals and National Health Services to deliver patient care.

Hollywood Bowl
Leisure operator focused on ten pin bowling in the UK. Growth driven by refurbishments, new site openings, and acquisitions; generating attractive returns and cash generation.

FDM
Market leader in the Recruit, Train and Deploy industry, placing IT and business professionals with clients globally in a range of sectors.

XP Power
A power solutions business that designs and manufactures power convertors used by customers to ensure their electronic equipment can function both safely and efficiently. With over 5,000 different products, XP Power can provide a full value add capability to its customers.

Unite Group
UK's leading manager and developer of student accommodation, and has further enlarged its scale via the acquisition of Liberty Living.

Big Yellow
UK self storage company, now with 99 storage facilities including 25 branded as Armadillo.

Morgan Sindall
UK leading business in construction and regeneration work.

Equity Investments

At 31 December 2019

Company	Sector classification	Valuation 2019 £'000	Total portfolio %	Valuation 2018 £'000
Aveva Group	Software & Computer Services	3,885	4.4	2,626
DiscoverIE Group	Electronic & Electrical Equipment	3,626	4.1	2,350
Intermediate Capital Group	Financial Services	3,603	4.1	1,511
Assura	Real Estate Investment Trusts	3,548	4.0	2,497
Hollywood Bowl	Travel & Leisure	3,232	3.6	1,914
FDM	Software & Computer Services	2,939	3.3	833
XP Power	Electronic & Electrical Equipment	2,884	3.2	1,978
Unite Group	Real Estate Investment Trusts	2,793	3.1	1,787
Big Yellow	Real Estate Investment Trusts	2,764	3.1	1,592
Morgan Sindall	Construction & Building Materials	2,747	3.1	1,792
Ten largest investments		**32,021**	**36.0**	
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	2,610	2.9	2,401
Telecom Plus	Fixed Line Telecommunications	2,551	2.9	2,305
Victrex	Chemicals	2,507	2.8	2,299p
Liontrust Asset Management	Financial Services	2,455	2.8	1,012
Workspace Group	Real Estate Investment Trusts	2,369	2.7	1,440
AJ Bell	Financial Services	2,279	2.6	400
Midwich	Support Services	2,169	2.4	981
Hilton Food Group	Food Producers	2,149	2.4	1,429
Close Brothers	Banks	2,046	2.3	1,843
Games Workshop	Leisure Goods	2,030	2.3	–
Twenty largest investments		**55,186**	**62.1**	
Cineworld Group	Travel & Leisure	1,972	2.2	598
Ultra Electronics	Aerospace & Defense	1,962	2.2	1,207
Chesnara	Life Insurance	1,842	2.1	2,039
4Imprint Group	Media	1,814	2.1	–
Fisher (James) & Sons	Industrial Transportation	1,784	2.0	1,528
MJ Gleeson	Household Goods & Home Construction	1,768	2.0	–
Moneysupermarket	Media	1,670	1.9	–
Robert Walters	Support Services	1,609	1.8	1,592
Savills	Real Estate Investment & Services	1,600	1.8	997
Sirius Real Estate	Real Estate Investment & Services	1,485	1.7	–
Thirty largest investments		**72,692**	**81.9**	

At 31 December 2019

Company	Sector classification	Valuation 2019 £'000	Total portfolio %	Valuation 2018 £'000
Diploma	Support Services	1,451	1.6	867
Alpha Financial Markets Cons	Support Services	1,392	1.6	–
Forterra	Construction & Materials	1,373	1.5	–
Rathbone Brothers	Financial Services	1,307	1.5	1,441
Kesko[A]	Food & Drug Retailers	1,263	1.4	–
Paypoint	Support Services	1,190	1.3	–
Marshalls	Construction & Materials	1,166	1.3	–
Burford Capital	Financial Services	953	1.1	2,221
Softcat	Software & Computer Services	914	1.0	–
Hansteen	Real Estate Investment Trusts	818	0.9	651
Forty largest investments		**84,519**	**95.1**	
Abcam	Pharmaceuticals & Biotechnology	773	0.9	1,417
Somero Enterprises	Industrial Engineering	755	0.9	–
Strix Group	Electronic & Electrical Equipment	706	0.8	–
Hiscox	Non life Insurance	662	0.7	1,426
Fuller Smith & Turner 'A'	Travel & Leisure	515	0.6	481
Total Equity investments		**87,930**	**99.0**	

[A] All equity investments are listed on the London Stock Exchange (sterling based), except those marked, which are listed on overseas exchanges based in sterling.

Other Investments

At 31 December 2019

Company	Valuation 2019 £'000	Total portfolio %	Valuation 2018 £'000
Corporate Bonds			
SSE 3.875% Var perp[A]	504	0.6	519
Barclays Bank 9% perp[A]	374	0.4	–
Total Corporate Bonds	**878**	**1.0**	
Total Other Investments	**878**	**1.0**	
Total Investments	**88,808**	**100.0**	

[A] Listed on the London Stock Exchange (sterling based).

Distribution of Assets and Liabilities

At 31 December 2019

	Valuation at 31 December 2018 £'000	%	Movement during the year Purchases £'000	Sales £'000	Gains/ (losses) £'000	Valuation at 31 December 2019 £'000	%
Listed investments							
Equity investments	61,663	97.9	22,905	(15,915)	19,277	87,930	106.4
Convertible preference shares	954	1.5	–	(945)	(9)	–	–
Corporate bonds	1,026	1.6	380	(543)	15	878	1.1
Preference shares	3,200	5.1	–	(3,578)	378	–	–
	66,843	106.1	23,285	(20,981)	19,661	88,808	107.5
Current assets	3,414	5.4				1,074	1.3
Other current liabilities	(222)	(0.4)				(235)	(0.3)
Loans	(6,983)	(11.1)				(6,987)	(8.5)
Net assets	63,052	100.0				82,660	100.0
Net asset value per Ordinary share	285.18p					373.86p	

Investment Case Studies

Games Workshop

Games Workshop is a niche investment case. It's the world's largest and only table top hobby company who design, manufacture, distribute and sell high quality miniatures and related products, most notably through their consumer facing brand Warhammer. The company sell their products via 3 channels, retail, online and trade. In addition to this they then receive royalties from licensing their brand to third parties, predominately through PC games and board games. Success in monetising their IP will make this a much more meaningful contribution to the business over time. Their IP also creates a strong barrier to entry.

Whilst one may think the hobbyist market to be small and niche, the audience is global, of all ages and very loyal. The design and features of the games continually evolve to the delight of their demonstrably price inelastic and loyal customer base. Social media has bolstered the business and increased the reach of the brand, allowing a new online community to emerge. Social media engagement, and even online sales, is something the management have only embraced in recent years and has really been a game changer for driving sales and attracting new customers.

The strength of the business model and its fundamentals (high margin, high returns with a strong balance sheet) make Games Workshop a compelling investment. In addition to growth from the core business, we will see strength from geographic expansion, particularly in the US where they now have a credible base as well as potential upside from increased licensing opportunities. Licensing opportunities are of particularly high margin. They are investing in capacity to ensure the business is capable of managing the strong growth in demand they are seeing.

This business has an excellent track record of delivering earnings growth, and with no direct competitor and strong market opportunity for all parts of the business we see every reason for the momentum to continue. Their dividend policy is to pay out "truly surplus cash", however they look at their cash position on a regular basis and look to distribute surplus cash to requirements.

The management team have increased their awareness of reporting on ESG credentials, and have initiated several projects internally to improve their sustainability aspects, and engage with shareholders as to their progress.

Investment Case Studies Continued

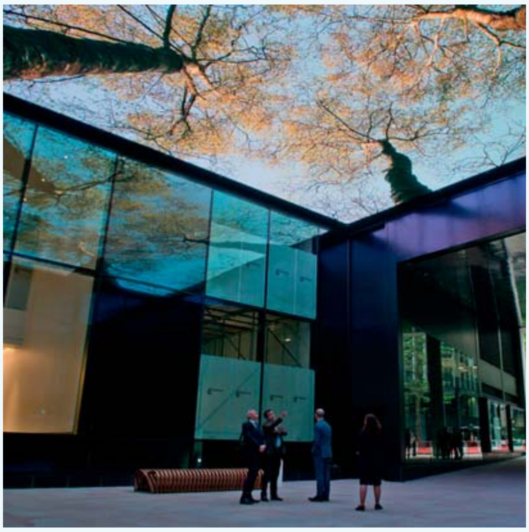
Sirius Real Estate

Sirius is a German property business, focused on the non-prime segment of key cities. It is an example of the breadth of investable opportunities we have in the UK market; the UK market does not represent solely the UK economy, as businesses listed in the UK have diverse global exposure.

We hold the management team in high regard, and they have shown strong execution in turning around and then growing the business since they joined. There are many quality aspects around how they manage the business; their low cost model of direct to consumer marketing, their in house property and tenant management platforms, their ability to utilise capacity to a higher level than previous owners given their breadth of space usage (office, storage, smart space, production etc.). They have a diversified mix of tenants, with the top 10 contributing only 17% of the rent roll, and a spread amongst sectors which both help to reduce risk. Their tenants have been shown to be sticky with low turnover.

Whilst the investment case has an earnings focus on managing the business to maximize the rent roll, the management team look to trade properties as well, so there is also a property yield angle . In early 2019 they signed a joint venture with Axa, which broadens their addressable universe, provides a potential outlet for some properties and also a visible recurring fee income stream. They have a strong balance sheet position, allowing them the capacity to deploy capital into acquiring further locations. They display strong ESG credentials in their extension of building lifelines, and efficient consumption of energy by tenants. The board perhaps could benefit from some more innovative thinking, but we have a positive view of the Chair who we also know from other businesses.

Whilst there are risks around the cost of debt increasing, and economic weakness in Germany we are confident that the resilience of the business, diverse nature of the tenants, and the growth levers that management can pull ensure the investment case remains attractive. The high yielding assets, together with their efficient platform provide an attractive level of recurring income, supporting attractive dividends to shareholders. Their historic dividend has been worth a 3.5% yield, and the dividend is growing strongly. With a policy to distribute 65% of recurring cash flow, it is one of the best covered dividends in its peer group.



Governance

The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship of the Manager.

XP Power
A power solutions business that designs and manufactures power convertors used by customers to ensure their electronic equipment can function both safely and efficiently. With over 5,000 different products, XP Power can provide a full value add capability to its customers.

Your Board of Directors

Robert Lister

Status:
Independent Chairman

Experience:
Non-executive director of IntegraFin Holdings, Investec Wealth and Investment Limited and non-executive chairman of Credit Suisse Asset Management UK. Over 20 years' experience of investment management and formerly global head of equities at Dresdner Kleinwort and head of European equities at Barclays de Zoete Wedd.

Length of service:
8 years, appointed in March 2012

David Fletcher

Status:
Audit Committee Chairman

Experience:
Recently retired as group finance director of Stonehage Fleming Family & Partners, a leading independently owned multi-family office, having joined in 2002. He has 20 years of investment banking experience with JPMorgan, Robert Fleming & Co. and Baring Brothers & Co Limited. He is a chartered accountant and is a non-executive director of JP Morgan Claverhouse Investment Trust plc.

Length of service:
3 years, appointed in August 2016

Dagmar Kent Kershaw

Status:
Independent
Non-Executive Director

Experience:
Over 20 years investment experience specialising in credit and structured finance markets. She was head of credit fund management for Europe and Asia-Pacific at Intermediate Capital Group from 2008 until 2016. Prior to that she was the founder and head of structured products at Prudential M&G and was also head of debt private placements. She began her career at Scotiabank and NatWest Bank. She is a member of the advisory council for Strategic Value Partners.

Length of service:
2 years, appointed in May 2017

Barry Rose

Status:
Independent
Non-Executive Director

Experience:
A wide range of experience of investing in international markets. Formerly a director of Scottish Provident Institution and chief executive of Scottish Provident UK. He is also a director of Medical Research Scotland, a charity.

Length of service:
9 years, appointed in March 2011

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Results and Dividends

The financial statements for the year ended 31 December 2019 are contained on pages 56 to 75.

A fourth interim dividend of 2.40p per share was declared by the Board in December 2019 with a record date of 3 January 2020 and was paid on 24 January 2020. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2020.

Investment Trust Status

The Company is registered as a public limited company and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448. The Company has been approved by HM Revenue & Customs as an investment trust subject to the Company continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the on-going requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 January 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2019 so as to enable it to comply with the on-going requirements for investment trust status.

Individual Savings Accounts ("ISAs")

The Company has conducted its affairs so as to satisfy the requirements as a qualifying security for ISAs. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

Corporate Governance

The Statement of Corporate Governance, which forms part of the Directors' Report is provided on pages 36 to 39.

Capital Structure

At 31 December 2019, the Company had 22,109,765 fully paid Ordinary shares of 50p each (2017 – 22,109,765 Ordinary shares). There have been no changes in the Company's issued share capital subsequent to the year end, up to the date of this Report. Each Ordinary share holds one voting right and shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares carry a right to receive dividends. On a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings. There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law.

Management Agreement

The Company has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager"), a wholly owned subsidiary of Standard Life Aberdeen plc, as its alternative investment fund manager ("AIFM"). ASFML has been appointed to provide investment management, risk management, administration and company secretarial services as well as promotional activities. The Company's portfolio is managed by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a group delegation agreement in place between ASFML and AAML. In addition, ASFML has sub-delegated promotional activities to AAML and administrative and secretarial services to Aberdeen Asset Management PLC. The management fee, details of which are shown in note 4 to the financial statements, is 0.75% per annum of net assets. The contract may be terminated by either the Company or the Manager on the expiry of six months' written notice.

Substantial Interests

The Board has been advised that the following shareholders owned 3% or more of the issued Ordinary share capital of the Company at 31 December 2019:

Shareholder	Number of shares held	% held
Aberdeen Standard Investment Trust Savings Plans	4,214,806	19.1
Aberdeen Standard Investments	3,120,476	14.1
Hargreaves Lansdown	2,082,107	9.4
Interactive Investor	2,064,119	9.3
Philip J Milton	1,336,199	6.0
Charles Stanley	1,058,227	4.8
AJ Bell	667,351	3.0
Rathbones	664,447	3.0

As at the date of approval of this Report, no changes to the above interests had been notified to the Company.

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility of which £5 million expires in 2021 and £5 million expires in 2023. Based on feed-back from major shareholders, the Directors consider that it is reasonable to assume that the continuation vote will be passed at the AGM to be held in April

2020 and therefore that the Company will continue. The Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this annual report and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 48 and 54. In accordance with Section 418 (2) of the Companies Act 2016, the Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. Additionally there have been no important events since the year end.

Annual General Meeting

The Annual General Meeting will be held on 30 April 2020 at 12.00 noon and the following resolutions will be proposed:

Continuation Vote

Resolution 10, which is an ordinary resolution, will, if approved, allow the company to continue as an investment trust company.

Section 551 authority to allot shares

Resolution 11, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,960, representing approximately one third of the total Ordinary share capital of the Company in issue as at the date of this document, such authority to expire on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Disapplication of Pre-emption Provisions

Resolution 12 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 12, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

Purchase of the Company's own Ordinary Shares

Resolution 13, which is a special resolution, will be proposed to renew the Company's authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (3,314,253 Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary 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 relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting.

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 30,424 Ordinary shares, representing 0.1% of the issued Ordinary share capital of the Company.

By order of the Board

Robert Lister,
Chairman
12 March 2020

Corporate Governance Report

Compliance
The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the UK Corporate Governance Code (the "UK Code") published in 2018 which is available on the Financial Reporting Council's website: **www.frc.org.uk**.

Additionally, the Company is a member of the Association of Investment Companies ("AIC") which has its own Code of Corporate Governance, published in 2019 (the "AIC Code"), that seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: **www.theaic.co.uk**.

The Board confirms that, during the year to 31 December 2019, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below:

1. the role of the chief executive (A.1.2);
2. executive Directors' remuneration (D.1.1 and D.1.2);
3. the need for an internal audit function (C.3.6);

For the reasons set out in the AIC Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. The full text of the Company's Corporate Governance Statement can be found on the Company's website: **www.aberdeensmallercompanies.co.uk**.

The Board
The Board consists currently of four non-executive Directors. There were no changes in the Board of Directors during the year to 31 December 2019.

The Board has no executive Directors as it has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial relationships. Following consideration, the Board concluded that, given the size of the Board and the fact that it is comprised entirely of non-executive Directors, the position of Senior Independent Director was not required.

Biographies of the Directors appear on page 33 which demonstrate the wide range of skills and experience each brings to the Board. No Director has a service contract with the Company. Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director. There were no contracts during, or at the end of the year, in which any Director was interested.

The Board has a formal schedule of matters specifically reserved to it for decision including strategy, dividend policy, gearing policy, review of the Manager and corporate governance matters. The Company's investment portfolio is managed within guidelines set by the Board as detailed on page 7.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of Aberdeen Asset Management PLC as Secretaries of the Company.

Meetings
The Board normally meets at least four times a year, and more frequently where business needs require. At each meeting the Board reviews the following:

- Reports from the Manager covering stockmarket environment, portfolio activites, performance and investment outlook;
- Company financial information including revenue forecasts, balance sheet and gearing position;
- Shareholder analysis and relations;
- Regulatory issues and industry matters;
- Reports from other service providers such as brokers and registrars.

The following table sets out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2019 (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
D. Fletcher	4 (4)	2 (2)	1 (1)	1 (1)
D. Kershaw	4 (4)	2 (2)	1 (1)	1 (1)
R. Lister[1]	4 (4)	2 (2)	1 (1)	1 (1)
B. Rose	4 (4)	2 (2)	1 (1)	1 (1)

[1] The position of Chairman allowed this Director to be present at the Audit Committee meeting as attendee only

Director's Interests
The Board regularly monitors the interests of each Director and a register of Directors' interests, including potential conflicts of interest, is maintained by the Company. External appointments

require prior approval by the Chairman. Directors who have potential or actual conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board continually monitors potential conflicts of interests on a regular basis.

The Board adopts a zero tolerance approach to bribery and corruption and the Board and the Manager have implemented appropriate procedures designed to prevent bribery.

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Board takes a zero-tolerance approach to facilitation of tax evasion, whether under UK law or under the law of any foreign country

The Company maintains insurance in respect of Directors' & Officers' liabilities in relation to their acts on behalf of the Company. Under the Company's articles of association, each Director is entitled to be indemnified out of the assets of the Company to the extent permitted by law.

Board Committees

The Board has appointed three Committees with specific operations as set out below. The terms of reference, which clearly define the responsibilities and duties of each Committee, are available on the Company's website.

The terms of reference of each of the Committees are renewed and re-assessed by the Board for their adequacy on an ongoing basis.

Audit Committee

The Audit Committee's Report is contained on pages 40 to 42.

Management Engagement Committee

The Board has a good working relationship with the Manager and continually reviews the policies and performance of the Manager. The Management Engagement Committee, which comprises all Directors, undertakes a formal annual review of the performance of the Manager, which encompasses the investment management of the Company's portfolio and provision of administration and other services. The terms of the management agreement, including the level of the fee and notice period, are covered within this review.

The Board considers the continuing appointment of the Manager, on the terms agreed, to be in the interests of shareholders and is satisfied with the current terms of that appointment.

Nomination Committee

The Nomination Committee, which comprises all Directors, reviews Director appraisals, succession planning, new appointments and training. Appointments of new Directors are undertaken following a thorough and open process involving professional recruitment consultants and interviews with the candidates identified. New appointments are identified against the requirements of the Company's business and the need to have a balanced Board with the best range of experience, skills, length of service and backgrounds, including gender.

Appointments are made on merit, taking into account the benefits of diversity, including gender. The Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board, therefore, has not set any measurable targets in relation to the diversity of the Board.

The Board takes the view that independence is not compromised by length of service and that the Company benefits from a balance of Board members with different tenures. The Board is mindful of the importance of having a suitable mapped board succession and renewal process and has established a succession plan for changes to the Board over the next one to two years. The Board conforms to the AIC code on tenure. Directors serve broadly for up to three three-year terms but are subject to re-election at the AGM annually. The Chair may serve for longer than nine years on the Board, should the Directors believe that this is in the interest of the Trust. The reasons for extension beyond nine years will be explained both in the Annual Report and at the AGM.

Performance Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In order to review its effectiveness, the Board carries out a process of formal self-appraisal. This process encompasses quantitative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion. The appraisal of the Chairman is undertaken by other Directors.

The review process carried out in respect of the year ended 31 December 2019 concluded that the Board is functioning well and operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company. There are no issues of concern.

Corporate Governance Report Continued

The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Manager.

The Board has implemented the provisions of the UK Code whereby all Directors of the Company will stand for re-election on an annual basis. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director.

New Directors are given an appropriate induction from the Manager covering legal responsibilities, the Manager's operations and investment trust industry matters. All Directors are entitled to receive appropriate and relevant training.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company and the Company reports formally to shareholders twice a year by way of the annual and half yearly reports. All shareholders have the opportunity to attend and vote at Annual General Meetings of the Company at which the Board and the Manager are available to discuss key issues affecting the Company. In addition, the Manager conducts meetings with major shareholders throughout the year to discuss issues relating to the Company which are also attended by the Chairman if appropriate. Shareholders and investors may obtain up-to-date information on the Company through its website and the Manager's information services.

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (either the Company Secretary or the Manager) in situations where direct communication is required.

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings. In addition the Company aims to give at least twenty working days' notice to shareholders of the Annual General Meeting.

Environmental, Social and Governance ("ESG") Investing

Whilst the management of the Company's investments is not undertaken with any specific instructions to exclude or include certain asset types or classes, the Manager embeds ESG considerations into the research and analysis of each asset class as part of the investment decision-making process. Where applicable, active engagement and other stewardship activities such as voting in line with best practices, with the goal of improving the performance of assets held around the world is also an important part of our approach.

The Manager aims to make the best possible investments for the Company, by understanding the whole picture of the investments – before, during and after an investment is made. That includes understanding the ESG risks and opportunities they present – and how these could affect longer-term performance. ESG considerations underpin all investment activities. With 1,000+ investment professionals, the Manager is able to take account of ESG factors in its company research, stock selection and portfolio construction – supported by more than 50 asset class specific ESG specialists around the world.

Active Engagement

For the equity holdings, through engagement and exercising voting rights, the Manager actively works with companies to improve corporate standards, transparency and accountability. By making ESG central to its investment capabilities, the Manager looks to deliver robust outcomes as well as actively contributing to a fairer, more sustainable world.

The primary goal is to generate the best long-term outcomes for the Company in order to fulfil fiduciary responsibilities to the Company and this fits with one of the Manager's core principles as a business in how it evaluates investments. The Manager sees ESG factors as being financially material and impacting corporate performance. The Manager focuses on understanding the ESG risks and opportunities of investments alongside other financial metrics to make better investment decisions.

The Manager aims for better risk-adjusted returns by actively undertaking informed and constructive engagement and asset management to generate better performance from the investments. This helps to enhance the value of clients' assets. Furthermore the Manager engages, manages and votes for either insight or influence. Comprehensive assessment of ESG factors, combined with constructive company engagement, should lead to better client outcomes.

Responsible Investment

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner and has noted the Manager's policy on social responsibility. The Investment Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments as part of its investment process. In particular, the Investment Manager encourages companies in which investments are made to adhere to best practice in the areas of Environmental, Social and Governance stewardship. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area.

The Company's ultimate objective, is to deliver long term growth on its investments for its shareholders which the Board and Manager believes will be produced on a sustainable basis by investments in companies which adhere to best practice in ESG. Accordingly, the Manager will seek to favour companies which pursue best practice in the above area.

The UK Stewardship Code and Proxy Voting

The Company supports the UK's Stewardship Code, and seeks to play its role in supporting good stewardship of the companies in which it invests. Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

The full text of the Company's response to the Stewardship Code may be found on its website.

The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Trust's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.

Report of the Audit Committee

The Audit Committee ("the Committee") presents its Report for the year ended 31 December 2019.

Committee Composition

The Committee is chaired by Mr Fletcher, who is a chartered accountant, and comprises all Directors of the Company with the exception of the Chairman, who attends but is a non-voting member. In addition the Board is satisfied that the Committee as a whole has competence relevant to the investment trust sector. The main responsibilities of the Committee, as set out in its terms of reference include:

- to review the annual and half yearly financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements;
- to assess whether the annual report and financial statements, taken as a whole, is fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to review the effectiveness of the internal control and risk management systems on which the Company is reliant and to consider annually the need for the Company to have its own internal audit function;
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible wrong-doings in matters of financial reporting or other matters;
- to consider the appointment, reappointment, remuneration and terms of engagement of the external auditor;
- to review annually the external auditor's independence, objectivity, effectiveness, resources and qualification; and
- to develop and implement a policy on the engagement of the external auditor to supply non-audit services. There were no non-audit fees paid to the Auditor during the year ended 31 December 2019.

Activities During the Year

The Committee meets twice per year when it reviews the annual and half yearly financial reports in detail. Reports from the Manager's internal audit, risk and compliance departments are also considered by the Committee which cover internal control systems, risk and the conduct of the business in the context of its regulatory environment.

Review of Risks and Internal Control Systems

The Board is responsible for the Company's system of internal control and has reviewed the effectiveness of the Company's risk management and internal control systems. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which include financial, operational, compliance and reputational risks.

The Board has delegated the management of the Company's assets to the Manager within overall guidelines. Risks are identified and documented through a risk management framework by each function within the Manager's activities. The internal control systems operated by the Manager are monitored and supported by an internal audit function which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented. Any weaknesses identified by the Committee are reported to the Board, and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

This process has been in place for the year under review and up to the date of approval of this annual report. It is regularly reviewed by the Board and accords with the Financial Reporting Council's Guidance.

In addition, the Board has adopted its own risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers (see pages 16 to 17). A monitoring system is undertaken whereby the controls to mitigate these risks, and the impact of the residual risks, are assessed on a regular basis. The risk matrix is reviewed formally on a six monthly basis in order to identify emerging risks which may arise.

Note 18 to the financial statements provides further information on financial risks. The key components designed to provide effective internal control are outlined below:

- the Manager prepares monthly forecasts and management accounts, covering investment activities and financial matters, which allow the Board to assess the Company's activities and review its performance;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers. The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and

exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;

- The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, to whom it has delegated the Trust's day to day operations, has decided to place reliance on the Manager's risk management systems and internal audit procedures. The Manager's internal audit and compliance departments continually review the Manager's operations and report to the Committee on a six monthly basis. The Committee has meetings, at least annually, with a senior member of the Manager's internal audit team;
- The Audit Committee carried out bi-annual reviews of the Manager's risk management and internal controls, including the internal audit and compliance functions; and
- an independent depositary, BNP Paribas Securities Services, London Branch, has been appointed to safeguard the Company's investments, which are registered in the name of the depositary's nominee company.

The system of internal control and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Significant Accounting Issues

The significant accounting issue considered by the Committee during the year in relation to the Company's financial statements was the valuation, existence and ownership of investments. The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1 to the financial statements. All investments are in quoted securities in active markets, are considered to be liquid and have largely been categorised as Level 1 within IFRS 13 fair value hierarchy. The portfolio holdings and their pricing is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company used the services of an independent depositary (BNP Paribas Securities Services) during the year under review to hold the assets of the Company. The investment portfolio is reconciled regularly by the Manager and the audit includes independent confirmation of the valuation and existence of all investments.

Other Accounting Issues

Other accounting issues considered by the Committee included:

- Recognition of Investment Income. The recognition of investment income is undertaken in accordance with the stated accounting policies. The Board reviews the Company's income, including the treatement of special dividends, and revenue forecasts.
- Investment Trust Status. Approval of the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1 January 2012 has been obtained and on-going compliance with the eligibility criteria is monitored on a regular basis.
- Consideration of the Company to continue as a going concern is provided on page 34.

Review of Auditor

Ernst & Young LLP were appointed as the Company's auditor with effect from 28 April 2017. The Committee has reviewed and is satisfied with the independence and the effectiveness of the auditor, Ernst & Young LLP ("EY"), as follows:

- The auditor reports on an annual basis the steps it takes to ensure its independence and objectivity and confirms that it has complied with the relevant UK independence guidelines. The level of non-audit services provided by the auditor is assessed by the Committee to take account of the requirement to maintain the independence of auditors.
- The Committee considers the experience, continuity and tenure of the audit team, including the audit partner. The audit team consists of suitably experienced staff with knowledge of the investment trust sector and there is a process in place for the rotation of the audit partner. The current senior statutory auditor, Caroline Mercer, has served 3 years (including the 2019 year end).
- The Committee assesses the level of audit service annually. The audit plan is reviewed well in advance and subsequent audit findings are reported comprehensively in a timely manner and are resolved satisfactorily. The auditor has a constructive working relationship with both the Board and the Manager.

Report of the Audit Committee Continued

Due to the increase in regulations and statutory disclosures required by listed companies, the level of audit fees within the investment trust industry has risen quite significantly over recent years. Audit firms have also become more selective in participating in audit tenders. During the year the Committee engaged with EY to review the level of their fees, taking into account these factors and have agreed a transitional increase in their fees of £24,000 for their 2019 audit and £32,000 for their 2020 audit. Further discussions on fees for future years will be undertaken.

The Committee considers EY to be independent of the Company and therefore has recommended that a resolution to re-appoint Ernst & Young LLP should be proposed for approval by shareholders at the AGM.

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

David Fletcher,
Chairman of the Audit Committee,
12 March 2020

Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 28 April 2017;

2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and

3. an Annual Statement.

The law requires the Company's auditor to audit certain of the disclosures provided in the Remuneration Report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included on pages 49 to 55.

Remuneration Policy

This Directors' Remuneration Policy takes into consideration the principles of UK Corporate Governance and the AIC's recommendations regarding the application of those principles to investment companies. There have been no changes to the policy during the period of this Report nor are there any proposals for changes in the foreseeable future.

As the Company has no employees and the Board is comprised wholly of non-executive Directors and, given the size and nature of the Company, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole.

Aggregate Fees

The Company's articles of association currently limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum subject to any changes to the Retail Prices Index effective from April 2011 (or such other amount as may from time to time be determined by ordinary resolution of the Company).

The current level of fees is set out in the table below. Fees are annually reviewed against RPI and, if considered appropriate, increased accordingly.

	1 January 2020 £	1 January 2019 £
Chairman	36,000	34,500
Chairman of Audit Committee	30,000	26,500
Director	25,500	23,000

Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should be sufficient to attract Directors of the quality required to run the Company successfully. The remuneration should also reflect the nature of their duties, responsibilities, the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and a similar investment objective.

Appointment

- The Company only intends to appoint non-executive Directors.
- All non-executive Directors are appointed under the terms of letters of appointment.
- Directors must retire and be subject to election at the first Annual General Meeting after their appointment, and to re-election annually thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £25,500).
- No incentive or introductory fees will be paid to encourage a directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.
- The Directors are entitled to be re-imbursed for out of pocket expenses incurred in connection with performing their duties including travel expenses.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- No Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.

Directors' Remuneration Report Continued

- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

A resolution to approve the Directors' Remuneration Policy will be proposed at the AGM.

Implementation Report

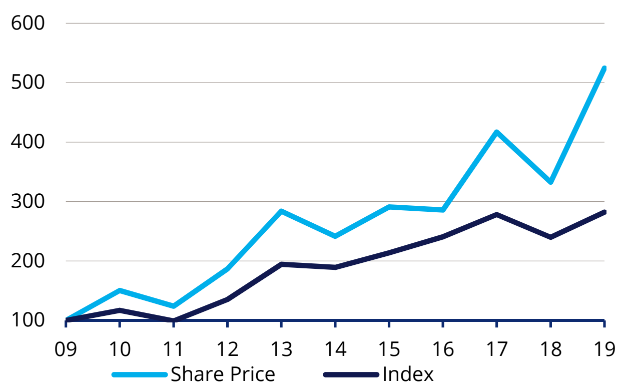
Directors' Fees

The Board carried out a review of the level of Directors' fees during the year and concluded that they should increase the rates as shown in the table in the precedonh page with effect from 1 January 2020. The last increase in fees was effective from 1 January 2014. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

Fee rates are established by taking advice from external sources as to current market levels.

Company Performance

The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE Small Cap Index exc Inv Trusts for the ten year period to 31 December 2019 (rebased to 100 at 31 December 2009). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 2 May 2019, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2018. 97.8% of proxy votes were in favour of the resolution, 1.3% were against, and 0.9% abstained. At the Company's AGM held on 28 April 2017, shareholders approved the Directors' Remuneration Policy with 98.9% of proxy votes in favour of the resolution, 0.9% against and 0.2% abstained.

A resolution to receive and adopt the Director's Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2019 will be proposed at the AGM.

Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors are shown below.

Audited Information

Fees Payable

The Directors who served in the year received the following fees which exclude employers' NI and any VAT payable.

Fees are pro-rated where a change takes place during a financial year. Of the fees disclosed, £19,875 (2018: £26,500) was payable to a third party, Stonehage Fleming, in respect of making available the services of David Fletcher.

	2019 £	2018 £
Robert Lister	34,500	34,500
David Fletcher	26,500	26,500
Dagmar Kent Kershaw	23,000	23,000
Barry Rose	23,000	23,000
Total	**107,000**	**107,000**

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 31 December 2019 and 31 December 2018 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table opposite.

	31 Dec 2019 Ord 50p	31 Dec 2018 Ord 50p
Robert Lister	5,200	5,200
David Fletcher	11,186	10,950
Dagmar Kent Kershaw	8,917	8,752
Barry Rose	5,000	5,000

Since the year end Mr Fletcher and Mrs Kent Kershaw purchased 77 and 44 shares respectively through dividend re-investment schemes. There have been no other changes to the Directors' interests in the share capital of the Company since the year end and up to the date of this Report. No Director had an interest in any contracts with the Company during the period or subsequently.

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 Report on Remuneration Policy and Policy Implementation summarises, as applicable, for the year ended 31 December 2019:

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

Robert Lister
Chairman
12 March 2020

Financial Statements

The Company's revenue return per share increased over the financial year from 9.03p to 9.98p. The total dividends for the year amounted to 8.25p, an increase of 12.2% from last year (2018: 7.35p).

Victrex
The leading global manufacturer of PEEK polymer which is a high performance thermoplastic.
With its high strength and performance qualities it is used as an alternative product to metal in a number of different industries.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and
- 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 they face.
- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

Robert Lister,
Chairman
12 March 2020

Independent Auditor's Report to the Members of Aberdeen Smaller Companies Income Trust PLC only

Opinion

We have audited the financial statements of Aberdeen Smaller Companies Income Trust PLC (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 16 and 17 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 16 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 34 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 19 in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Overview of our audit approach

Key audit matters	· Risk of incomplete and/or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income · Risk of incorrect valuation and/or defective title to the investment portfolio · Risk that the going concern assumption is incorrectly applied
Materiality	· Overall materiality of £0.83m which represents 1% of equity shareholders' funds (2018: £0.63m)

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 our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Aberdeen Smaller Companies Income Trust PLC only Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete and/or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income (as described on page 41 in the Report of the Audit Committee and as per the accounting policy set out on page 61). The total revenue received for the year to 31 December 2019 was £2.75m (2018: £2.60m), consisting primarily of dividend and interest income from listed investments. Special dividends for the year totalled £0.37m (2018: £1.44m) of which £0.21m (2018: £0.26m) were classified as revenue and £0.16m (2018: £1.18m) as capital. Income during the year directly affects the Company's revenue return and the ability to pay dividends. There is a risk of incomplete and/or inaccurate recognition of revenue through the failure to recognise proper income entitlements or applying appropriate accounting treatment. In addition to the above, the Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. There is a risk of management override or that incorrect judgement is applied.	*We have performed the following procedures:* We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and the classification of special dividends by reviewing their internal controls reports and performing walkthrough procedures. For the classification of special dividends, we also evaluated the design and implementation of controls. We agreed a sample of dividends received as noted in the income report for the Company to the corresponding announcement made by the investee company. We recalculated the dividend income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share as agreed to an external source. We agreed the sample to bank statements and where applicable, we also agreed the exchange rates to an external source. We agreed a sample of investee company dividend announcements from an independent data vendor to the revenue recorded by the Company to test completeness of the revenue recorded. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 December 2019. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements if paid post year end. We performed a review of the income and capital reports to identify all dividends received and accrued during the period that are above our testing threshold. We identified which of the dividends above our testing threshold were special dividends with reference to an external source. There were two special dividends above our testing threshold with a combined total of £0.13m which were classified as revenue and two special dividends above our testing threshold with a combined total of £0.16m which were classified as capital. We recalculated and assessed the appropriateness of management's classification between revenue and capital for each of the special dividends identified for testing with reference to information available from the underlying company which set out the rationale for paying the special dividend.	*The results of our procedures are:* We have no issues to communicate with respect to our procedures performed over the risk of incomplete and/or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income.

Risk of incorrect valuation and/or defective title of the investment portfolio (as described on page 41 in the Report of the Audit Committee and as per the accounting policy set out on page 60). The valuation of the portfolio at 31 December 2019 was £88.81m (2018: £66.84m). The valuation of the assets held in the investment portfolio is the primary driver of the Company's net asset value and total return. Incorrect investment pricing and/or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.	*We performed the following procedures:* We obtained an understanding of the Administrator's processes and controls surrounding investment pricing by reviewing the internal controls reports and by performing walkthrough procedures. For all investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year-end. We obtained and reviewed the Manager's liquidity assessment and performed an independent evaluation of the portfolio's liquidity using trading volumes obtained from an external data vendor, where available. We agreed the Company's investments to the independent confirmation received from the Company's Custodian and Depositary as at 31 December 2019.	*The results of our procedures are:* We have no issues to communicate with respect to our procedures performed over the risk of incorrect valuation and/or defective title to the investment portfolio.
Risk that the going concern assumption is incorrectly applied (as described on page 41 in the Report of the Audit Committee and as per the accounting policy set out on page 60). The Directors are required to determine the appropriateness of preparing the financial statements on a going concern basis. In doing so, they are obliged to consider the ability of the Company to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements.	*We performed the following procedures:* We reviewed the cash flow and revenue forecast which support the Directors' assessment of going concern. We considered the performance of the Company in comparison with the benchmark and peer group and the share price discount to net asset value. We ascertained that the going concern assessment covers a period of at least twelve months from the date of approval of the financial statements. We held discussions with the Manager in relation to correspondence with material shareholders regarding the sentiment for the continuation vote and obtained relevant supporting documentation. We held discussions with the Audit Committee to determine whether, in their opinion, there is any reason why the continuation vote may not be approved at the AGM.	*The results of our procedures are:* We have no issues to communicate with respect to our procedures performed over the risk that the going concern assumption is incorrectly applied.

Independent Auditor's Report to the Members of Aberdeen Smaller Companies Income Trust PLC only Continued

They also required to assess the adequacy of the going concern disclosures in the annual report and financial statements.	We also discussed whether there are any other events or conditions that exist that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern.
In accordance with the Company's Articles of Association, the Directors are required to propose a resolution that the Company continues as an investment trust every five years. The next continuation vote will be at the Annual General Meeting (the 'AGM') to be held in April 2020. There is a risk that the continuation of the Company will not be approved by shareholders at the AGM and if this happened it would mean that the application of the going concern at the time of approval of the Annual Report and Financial Statements was inappropriate.	We considered whether the Directors' assessment of going concern as included in the Annual Report is appropriate and consistent with the disclosure in the viability statement.

There have been no changes to the areas of key focus raised in the above risk table from the prior year, with the exception of the inclusion of the risk that the going concern assumption is incorrectly applied. This has been included due to the continuation vote at the upcoming AGM.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £0.83m (2018: £0.63m) which is 1% (2018: 1%) of equity shareholders' funds. We believe that equity shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £0.62m (2018: £0.47m). We have set the performance materiality at this percentage as we considered there to be a low likelihood of misstatements based on our previous audits of the Company.

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income, of £0.11m (2018: £0.10m) being 5% of the profit before tax.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.04m (2018: £0.03m) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-48 and 76-91, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 48 –** 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 set out on pages 40-42 –** 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 set out on page 36 to 39 –** 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.

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Independent Auditor's Report to the Members of Aberdeen Smaller Companies Income Trust PLC only Continued

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 Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 48, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are IFRS, the Companies Act 2006, AIC SORP, the Listing Rules, the UK Corporate Governance Code, the Companies (Miscellaneous Reporting) Regulations 2018 and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate income recognition through incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

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

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company with effect from 28 April 2017 to audit the financial statements of the Company for the year ending 31 December 2017 and subsequent financial periods, and signed an engagement letter on 17 September 2017.
- The period of total uninterrupted engagement is three years, covering periods from our appointment through to the period ending 31 December 2019.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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.

Caroline Mercer (Senior statutory auditor),
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
12 March 2020

Statement of Comprehensive Income

		Year ended 31 December 2019			Year ended 31 December 2018		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at fair value	10	–	19,661	19,661	–	(12,256)	(12,256)
Currency (losses)/gains		–	(12)	(12)	–	1	1
Income	3						
Dividend income		2,700	–	2,700	2,513	–	2,513
Interest income from investments		46	–	46	87	–	87
Other income		8	–	8	4	–	4
		2,754	19,649	22,403	2,604	(12,255)	(9,651)
Expenses							
Investment management fee	4	(163)	(380)	(543)	(166)	(389)	(555)
Other administrative expenses	5	(314)	–	(314)	(374)	–	(374)
Finance costs	6	(61)	(142)	(203)	(56)	(130)	(186)
Profit/(loss) before tax		2,216	19,127	21,343	2,008	(12,774)	(10,766)
Taxation	7	(10)	–	(10)	(11)	–	(11)
Profit/(loss) attributable to equity holders	9	**2,206**	**19,127**	**21,333**	**1,997**	**(12,774)**	**(10,777)**
Return per Ordinary share (pence)	9	**9.98**	**86.51**	**96.49**	**9.03**	**(57.77)**	**(48.74)**

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit attributable to equity holders " is also the "Total comprehensive income attributable to equity holders" as defined in IAS 1 (revised).

All of the profit and comprehensive income are attributable to the equity holders of the Company.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these financial statements.

Balance Sheet

	Notes	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Non-current assets			
Equities		87,930	61,663
Convertible preference shares		–	954
Corporate bonds		878	1,026
Preference shares		–	3,200
Securities at fair value	10	88,808	66,843
Current assets			
Cash and cash equivalents		780	3,071
Other receivables	11	294	343
		1,074	3,414
Current liabilities			
Bank loan	12	(2,000)	(2,000)
Trade and other payables	12	(235)	(222)
		(2,235)	(2,222)
Net current (liabilities)/assets		(1,161)	1,192
Total assets less current liabilities		87,647	68,035
Non-current liabilities			
Bank loan	13	(4,987)	(4,983)
Net assets		**82,660**	**63,052**
Share capital and reserves			
Called-up share capital	15	11,055	11,055
Share premium account		11,892	11,892
Capital redemption reserve		2,032	2,032
Capital reserve		54,086	34,959
Revenue reserve		3,595	3,114
Equity shareholders' funds		**82,660**	**63,052**
Net asset value per Ordinary share (pence)	16	**373.86**	**285.18**

The financial statements were approved by the Board of Directors and authorised for issue on 12 March 2020 and were signed on its behalf by:

R. Lister
Chairman

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2018		11,055	11,892	2,032	34,959	3,114	63,052
Profit for the year		–	–	–	19,127	2,206	21,333
Dividends paid in the year	8	–	–	–	–	(1,725)	(1,725)
As at 31 December 2019		**11,055**	**11,892**	**2,032**	**54,086**	**3,595**	**82,660**

Year ended 31 December 2018

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2017		11,055	11,892	2,032	47,733	2,709	75,421
(Loss)/profit for the year		–	–	–	(12,774)	1,997	(10,777)
Dividends paid in the year	8	–	–	–	–	(1,592)	(1,592)
As at 31 December 2018		**11,055**	**11,892**	**2,032**	**34,959**	**3,114**	**63,052**

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Dividend income received		2,730	2,498
Interest income received		47	90
Other income received		8	4
Investment management fee paid		(523)	(526)
Other cash expenses		(308)	(370)
Cash generated from operations		1,954	1,696
Interest paid		(194)	(162)
Overseas taxation suffered		(10)	(27)
Net cash inflows from operating activities		1,750	1,507
Cash flows from investing activities			
Purchases of investments		(23,291)	(14,690)
Sales of investments		20,987	17,295
Net cash (outflow)/inflow from investing activities		(2,304)	2,605
Cash flows from financing activities			
Loan repaid		–	(7,000)
Loan drawndown		–	7,000
Costs relating to drawdown of loan		–	(32)
Equity dividends paid	8	(1,725)	(1,592)
Net cash outflow from financing activities		(1,725)	(1,624)
Net (decrease)/increase in cash and cash equivalents		(2,279)	2,488
Analysis of changes in cash and cash equivalents during the year			
Opening balance		3,071	582
Currency (losses)/gains		(12)	1
(Decrease)/increase in cash and cash equivalents as above		(2,279)	2,488
Closing balances		**780**	**3,071**

Notes to the Financial Statements

1. **Principal activity.** The Company is a closed-end investment company, registered in Scotland No SC137448, with its Ordinary shares being listed on the London Stock Exchange.

2. **Accounting policies**

(a) **Basis of accounting.** The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and International Financial Reporting Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, following consideration of the continuation vote as set out in the Directors' Report on page 34, they continue to adopt the going concern basis in preparing the financial statements.

The Company's financial statements are presented in sterling, which is also the functional currency as it is the currency in which shares are issued and expenses are generally paid. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Financial Statements of Investment Trust Companies and Venture Capital Trusts," issued in October 2019".

Significant accounting judgements, estimates and assumptions. The preparation of financial statements requires the use of certain significant accounting judgements, estimates and assumptions which requires management to exercise its judgement in the process of applying the accounting policies and are continually evaluated. The area requiring most significant judgement and assumption in the financial statements is the determination of the fair value hierarchy classification of quoted bonds which have been assessed as being Level 2 due to them not being considered to trade in active markets. The Directors do not consider there to be any significant estimates within the financial statements.

New and amended accounting standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2019:

– IFRIC 23 – Uncertainty over Income Tax Treatments
– IFRS 9 Amendment: Prepayment Features with Negative Compensation

Future amendments to standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2020:

– IAS 1 and IAS 8 Amendments: Definition of Material
– IFRS 9, IAS 39 and IFRS 7 Amendments: Interest Rate Benchmark Reform

The Company intends to adopt the Standards and Interpretations in the reporting period when they become effective and the Board does not anticipate that the adoption of these Standards and Interpretations in future periods will materially impact the Company's financial results in the period of initial application although there may be revised presentations to the Financial Statements and additional disclosures.

(b) **Investments.** The Company has adopted the classification and measurement provisions of IFRS 9 'Financial Instruments'.

The Company classifies its equity investments and debt instruments based on their contractual cash flow characteristics and the Company's business model for managing the assets. Equity investments fail the contractual cash flows test so are measured at fair value. For debt instruments, the business model, is the determining feature and they are managed, performance monitored and risk evaluated, on a fair value basis. The Manager is also compensated based on the fair value of the Company's assets. Consequently, all investments are measured at fair value through profit or loss.

Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are measured at fair value. For listed investments, the valuation of investments at the year end is deemed to be bid market prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange.

Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

(c) Income. Dividend income from equity investments, including preference shares which have a discretionary dividend is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date.

Interest from debt securities, and income from preference shares which do not have a discretionary dividend are accounted for on an accruals basis. Any write-off of the premium or discount on acquisition as a result of using this basis is allocated against capital reserve. The SORP recommends that such a write-off should be allocated against revenue. The Directors believe this treatment is not appropriate for an investment trust which frequently trades in debt securities and believe any premium or discount paid for such an investment is a capital item.

Interest receivable on AAA rated money market funds and short term deposits are accounted for on an accruals basis.

(d) Expenses. All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% to revenue and 70% to capital (2018 – same), in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. This allocation is reviewed on a regular basis.

(e) Cash and cash equivalents. Cash comprises cash in hand and demand deposits. Cash equivalents includes bank overdrafts repayable on demand and short term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

(f) Borrowings. At and after initial measurement, bank borrowings are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate. The finance costs of such borrowings are accounted for on an accruals basis using the effective interest rate method and are charged 30% to revenue and 70% to capital in the Statement of Comprehensive Income to reflect the Company's investment policy and prospective income and capital growth.

(g) Taxation. The tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the Balance Sheet date.

Deferred tax is recognised in respect of all temporary differences at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the Balance Sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise, using tax rates that are expected to apply at the date the deferred tax position is unwound.

The SORP requires that a transfer should be made from income to capital equivalent to the tax value of any management expenses that arise in capital but are utilised against revenue. The Directors consider that this requirement is not appropriate for an investment trust with an objective to provide a high and growing dividend that does not generate a corporation tax liability. Given there is only one class of shareholder and hence overall the net effect of such a transfer to the net asset value of the shares is nil no such transfer has been made.

Notes to the Financial Statements Continued

(h) **Foreign currencies.** Monetary assets and liabilities and non-monetary assets held at fair value denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the reporting date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Gains or losses arising from a change in exchange rates subsequent to the date of a transaction are included as a currency gain or loss in revenue or capital in the Statement of Comprehensive Income, depending on whether the gain or loss is of a revenue or capital nature.

(i) **Nature and purpose of reserves**

Share premium account. The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising ordinary shares of 50p per share. This reserve is not distributable.

Capital redemption reserve. The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital. This reserve is not distributable.

Capital reserve. This reserve reflects any gains or losses on investments realised in the period along with any increases and decreases in the fair value of investments held that have been recognised in the Statement of Comprehensive Income. These include gains and losses from foreign currency exchange differences. Additionally, expenses, including finance costs, are charged to this reserve in accordance with (e) above. This reserve is not distributable except for the purpose of funding share buybacks to the extent that gains are deemed realised.

Revenue reserve. This reserve reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income. The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

(j) **Dividends payable.** Interim dividends are recognised in the financial statements in the period in which they are paid.

(k) **Segmental reporting.** The Directors are of the opinion that the Company is engaged in a single segment of business activity, being investment business. Consequently, no business segmental analysis is provided.

3. Income

	2019 £'000	2018 £'000
Income from investments		
Dividend income from UK equity securities	2,086	1,912
Dividend income from overseas equity securities	355	349
Stock dividends from UK equity securities	–	31
Property income distributions	259	221
	2,700	2,513
Interest income from investments	46	87
	2,746	2,600
Other income		
Bank interest	8	4
Total revenue income	**2,754**	**2,604**

4. Management fee

			2019			2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	163	380	543	166	389	555

For the year ended 31 December 2019 management services were provided by Aberdeen Standard Fund Managers Limited ("ASFML"). The management fee was calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. The balance due to ASFML at the year end was £100,000 (2018 – £80,000). The fee is allocated 30% (2018 – 30%) to revenue and 70% (2018 – 70%) to capital.

The agreement is terminable on twelve months' written notice from the Company or the Manager, however, the Company may terminate the agreement on immediate notice on the payment to the Manager of six months' fees in lieu of notice.

5. Other administrative expenses

	2019 £'000	2018 £'000
Directors' fees	107	107
Auditor's remuneration:		
– fees payable for the audit of the annual accounts	24	19
– fees payable for iXBRL tagging services	–	2
Promotional activities	39	64
Legal and professional fees	(11)	21
Registrars' fees	15	18
Printing and postage	19	20
Broker fees	36	36
Directors' & Officers' liability insurance	7	6
Trade subscriptions	27	26
Other expenses	51	55
	314	374

Expenses of £39,000 (2018 – £64,000) were paid to ASFML in respect of the promotion of the Company. The balance outstanding at the year end was £33,000 (2018 – £16,000).

All of the expenses above, with the exception of the auditor's remuneration, include irrecoverable VAT where applicable. The VAT charged on the auditor's remuneration is included within other expenses. In addition the VAT charged on applicable directors fees is included within other expenses.

6. Finance costs

			2019			2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loans	61	142	203	56	130	186

Notes to the Financial Statements Continued

7. Taxation

(a) Analysis of charge for the year

			2019			2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas withholding tax	10	–	10	11	–	11
Total tax charge for the year	**10**	**–**	**10**	**11**	**–**	**11**

(b) Factors affecting tax charge for the year

The UK corporation tax rate was 19% throughout the year (2018 – same). The tax assessed for the year is lower than the corporation tax rate. The differences are explained below:

			2019			2018
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before tax	2,216	19,127	21,343	2,008	(12,774)	(10,766)
Taxation of profit/(loss) at the effective standard rate of corporation tax	421	3,634	4,055	382	(2,427)	(2,045)
Effects of:						
Non taxable UK dividend income	(373)		(373)	(369)	–	(369)
Currency gains		2	2	–	–	–
Capital (gains)/losses disallowed for the purposes of corporation tax		(3,735)	(3,735)	–	2,329	2,329
Non taxable overseas income not subject to tax	(68)		(68)	(66)	–	(66)
Excess management expenses not utilised	20	99	119	53	98	151
Irrecoverable overseas withholding tax	10	–	10	11	–	11
Total tax charge for the year	**10**	**–**	**10**	**11**	**–**	**11**

(c) Factors that might affect future tax charges. No provision for deferred tax has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust company.

At the period end, after offset against income taxable on receipt, there is a potential deferred tax asset of £2,500,000 (2018 – £2,394,000) in relation to surplus management expenses. It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

8. Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for 2018 of 1.95p (2017 – 1.80p) per Ordinary share	431	398
First interim dividend for 2019 of 1.95p (2019 – 1.80p) per Ordinary share	432	398
Second interim dividend for 2019 of 1.95p (2018 – 1.80p) per Ordinary share	431	398
Third interim dividends for 2019 of 1.95p (2018 – 1.80p) per Ordinary share	431	398
	1,725	**1,592**

The fourth interim dividend of 2019 of 2.40p per share has not been included as a liability in these financial statements.

The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,206,000 (2018 – £1,997,000).

	2019 £'000	2018 £'000
First interim dividend for 2019 of 1.95p (2019 – 1.80p) per Ordinary share	432	398
Second interim dividend for 2019 of 1.95p (2018 – 1.80p) per Ordinary share	431	398
Third interim dividends for 2019 of 1.95p (2018 – 1.80p) per Ordinary share	431	398
Fourth interim dividend for 2019 of 2.40p (2018 – 1.95p) per Ordinary share	531	431
	1,825	**1,625**

9. Earnings per Ordinary share

	2019 p	2018 p
Revenue return	9.98	9.03
Capital return	86.51	(57.77)
Net return	**96.49**	**(48.74)**

The returns per share are based on the following figures:

	2019 £'000	2018 £'000
Revenue return	2,206	1,997
Capital return	19,127	(12,774)
Net return	**21,333**	**(10,777)**
Weighted average number of shares in issue	**22,109,765**	**22,109,765**

Notes to the Financial Statements Continued

10. Non-current assets – securities at fair value

	2019 £'000	2018 £'000
Listed on recognised stock exchanges:		
United Kingdom	86,060	65,843
Overseas	2,748	1,000
	88,808	**66,843**

	2019 £'000	2018 £'000
Opening book cost	50,945	52,658
Investment holdings gains	15,898	29,015
Opening fair value	66,843	81,673
Analysis of transactions made during the year		
Purchases	23,285	14,726
Sales – proceeds	(20,981)	(17,300)
Gains/(losses) on investments	19,661	(12,256)
Closing fair value	**88,808**	**66,843**
Closing book cost	56,436	50,945
Closing investment holdings gains	32,372	15,898
Closing fair value	**88,808**	**66,843**

The company received £20,981,000 (2018 – £17,300,000) from investments sold in the year. The book cost of these investments when they were purchased were £17,711,000 (2018 – £16,439,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Transaction costs. During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within (losses)/gains on investments in the Statement of Comprehensive Income. The total costs were as follows:

	2019 £'000	2018 £'000
Purchases	98	74
Sales	15	11
	113	**85**

The above transaction costs are calculated in line with the AIC SORP. The transaction costs in the Company's Key Information Document are calculated on a different basis and in line with the PRIIPs regulations.

11. Other receivables

	2019 £'000	2018 £'000
Amounts due from brokers	–	5
Accrued income & prepayments	294	338
	294	**343**

None of the above amounts are overdue.

12. Current liabilities

	2019 £'000	2018 £'000
(a) Short-term loan	2,000	2,000

The Company has in place a £10 million loan facility with Royal Bank of Scotland International Holdings (RBSi) which comprised of two £5 million traches. Tranche A is a three year £5 million multi-currency revolving credit facility and £2 million was drawn down at 31 December 2019 at a rate of 1.657750% until 30 January 2020. Tranche B is a five year £5 million fixed rate loan facility and was fully drawn down on 28 April 2018. The interest on Tranche B is fixed at 2.825% per annum payable quarterly in arrears. At the date of this Report the Company had drawn down £2 million on Tranche A at a rate of 1.62728% until 27 March 2020.

The Directors are of the opinion that the fair value of the short term bank loan at 31 December 2019 is not materially different from the book value.

(b) Trade and other payables	2019 £'000	2018 £'000
Investment management fee	100	80
Interest payable	27	32
Amounts due to brokers	–	5
Sundry creditors	108	105
	235	**222**

13. Non-current liabilities

	2019 £'000	2018 £'000
Fixed rate loan	4,987	4,983

All financial liabilities are measured at amortised cost. The fair value of the fixed rate loan has been calculated as £5,086,000 (2018 – £5,161,000) and would be classified as a Level 2 liability under Fair Value Hierarchy guidance of IFRS 13 'Fair Value Measurement'.

Notes to the Financial Statements Continued

14. Analysis of changes in financing liabilities during the year. The following table shows the movements during the year of financing liabilities in the Balance Sheet:

	2019 £'000	2018 £'000
Opening balance at 1 January	6,983	7,000
Net cash flows	–	(32)
Amortisation of arrangement costs	4	15
Closing balance at 31 December	**6,987**	**6,983**

15. Called-up share capital

	Ordinary shares of 50 pence each	
	Number	**£'000**
Authorised	**35,000,000**	**17,500**
Allotted and fully paid		
At 31 December 2019 and 31 December 2018	**22,109,765**	**11,055**

16. Net asset value per share. The net asset value per Ordinary share and the net asset value attributable to the Ordinary shares at the year end were as follows:

	2019	2018
Net asset value attributable (£'000)	82,660	63,052
Number of Ordinary shares in issue	22,109,765	22,109,765
Net asset value per share (p)	373.86	285.18

17. Analysis of changes in net debt

	At 31 December 2018 £'000	Currency differences £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2019 £'000
Cash and short term deposits	3,071	(12)	(2,279)	–	780
Debt due within one year	(2,000)	–	–	–	(2,000)
Debt due after more than one year	(4,983)	–		(4)	(4,987)
	(3,912)	**(12)**	**(2,279)**	**(4)**	**(6,207)**

	At 31 December 2017 £'000	Currency differences £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2018 £'000
Cash and short term deposits	582	1	2,488	–	3,071
Debt due within one year	(7,000)	–	5,000	–	(2,000)
Debt due after more than one year	–	–	(4,980)	(3)	(4,983)
	(6,418)	**1**	**2,508**	**(3)**	**(3,912)**

A statement reconciling the movement in net funds to the net cash flow has not been presented as there are no differences from the above analysis.

18. Financial instruments and risk management. The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise UK listed equities and corporate fixed interest bonds, cash balances, debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may enter into derivative transactions for the purpose of managing market risks arising from the Company's activities though there was no exposure to derivative instruments during the year.

The Board has delegated the risk management function to Aberdeen Standard Fund Managers Limited ("the AIFM" or "ASFML") under the terms of its management agreement with ASFML (further details of which are included under note 3). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period.

Risk management framework. The directors of ASFML collectively assume responsibility for ASFML's obligations under the AIFMD including reviewing investment performance and monitoring the Company's risk profile during the year.

ASFML is a fully integrated member of the Standard Life Aberdeen plc group of companies (referred to as "the Group"), which provides a variety of services and support to ASFML in the conduct of its business activities, including in the oversight of the risk management framework for the Company. The AIFM has delegated the day to day administration of the investment policy to Aberdeen Asset Managers Limited, which is responsible for ensuring that the Company is managed within the terms of its investment guidelines and the limits set out in FUND 3.2.2R (details of which can be found on the Company's website). The AIFM has retained responsibility for monitoring and oversight of investment performance, product risk and regulatory and operational risk for the Company.

The AIFM conducts its risk oversight function through the operation of the Group's risk management processes and systems which are embedded within the Group's operations. The Group's Risk Division supports management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Compliance, Business Risk, Market Risk, Risk Management and Legal. The team is headed up by the Group's Head of Risk, who reports to the Chief Executive Officer of the Group. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system ("SHIELD").

The Group's Internal Audit Department is independent of the Group's Risk Division and reports directly to the Chief Executive Officer and to the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment.

The Group's corporate governance structure is supported by several committees to assist the board of directors of the Group, its subsidiaries and the Company to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those committees that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described on the committees' terms of reference.

Risk management. The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk and price risk), (ii) liquidity risk and (iii) credit risk.

(i) Market risk. The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements – interest rate risk and price risk.

Interest rate risk. Interest rate risk is the risk that interest rate movements will affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

Notes to the Financial Statements Continued

Management of the risk. The Board will monitor the effects of interest movements closely to take account of when making investment and borrowing decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

Interest rate profile. The interest rate risk profile of the portfolio of financial assets and liabilities (excluding equity shares and convertible preference shares) at the Balance Sheet date was as follows:

As at 31 December 2019	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non–interest bearing £'000
Assets					
Corporate bonds	40.66	5.38	878	–	–
Cash	–	–	–	780	–
Total assets	–	–	878	780	–
Liabilities					
Short-term bank loan	0.08	1.66	(2,000)	–	–
Fixed rate bank loan	3.32	2.83	(5,000)	–	–
Total liabilities	–	–	(7,000)	–	–
Total	–	–	**(6,122)**	**780**	–

As at 31 December 2018	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non–interest bearing
Assets					
Convertible preference shares	1.50	10.75	954	–	–
Corporate bonds	18.21	4.08	1,026	–	–
Preference shares	–	6.69	3,200	–	–
Cash	–	–	–	3,071	–
Total assets	–	–	5,180	3,071	–
Liabilities					
Short-term bank loan	0.08	1.68	(2,000)	–	–
Fixed rate bank loan	4.33	2.83	(5,000)	–	–
Total liabilities	–	–	(7,000)	–	–
Total	–	–	**(1,820)**	**3,071**	–

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loan is based on the interest rate payable, weighted by the total value of the loan. The maturity date of the Company's loan is shown in note 12 to the financial statements.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

The preference shares above have no fixed redemption date.

Short-term debtors and creditors, with the exception of bank loans, have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Interest rate sensitivity. The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher and all other variables were held constant, the Company's:

- profit before tax for the year ended 31 December 2019 would decrease by approximately £62,000 (2018 – £39,000 decrease) in relation to the Company's exposure to interest rates on its floating rate cash balances and bank loans. These figures have been calculated based on cash positions and bank loans at each year end; and
- profit before tax for the year ended 31 December 2019 would decrease by £7,000 (2018 – £117,000 decrease) in relation to the Company's exposure to interest rates on its fixed interest securities.

If interest rates had been 100 basis points lower and all other variables were held constant, the Company's:

- profit before tax for the year ended 31 December 2019 would increase by approximately £62,000 (2018 – £39,000 increase) based on the Company's exposure to interest rates on its floating rate cash balances and bank loans. These figures have been calculated based on cash positions and bank loans at each year end; and
- profit before tax for the year ended 31 December 2019 would increase by £7,000 (2018 – £117,000) in relation to the Company's exposure to interest rates on its fixed interest securities.

Price risk. Price risks (i.e. changes in market prices other than those arising from interest rate) will affect the value of the quoted investments. The Company's stated objective is to provide a high and growing dividend with capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Management of the risk. It is the Company's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process, as detailed on pages 79 and 80, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Kesko, which is traded on the Helsinki exchange.

Price sensitivity. If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2019 would have increased by £8,793,000 (2018 – £6,262,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2019 would have decreased by £8,793,000 (2018 – £6,262,000).This is based on the Company's equity investments held at each year end.

(ii) Liquidity risk. This 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 value or from the inability to generate cash inflows as required.

Management of the risk. Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan facilities (note 12).

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Maturity profile. The maturity profile of the Company's financial liabilities at the Balance Sheet date was as follows:

At 31 December 2019	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000
Trade and other payables	(235)	–	–	–	–
Bank loans	(2,000)	–	–	(5,000)	–
Interest on bank loans	(141)	(141)	(109)	(70)	–
	(2,376)	**(141)**	**(109)**	**(5,070)**	–

At 31 December 2018	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000
Trade and other payables	(222)	–	–	–	–
Bank loan	(2,000)	–	–	–	(5,000)
Interest on bank loans	(144)	(141)	(141)	(109)	(70)
	(2,366)	**(141)**	**(141)**	**(109)**	(5,070)

(iii) Credit risk. This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

Management of the risk. The Company considers credit risk not to be significant as it is actively managed as follows:

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- investment transactions are carried out on a delivery versus payment basis with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Credit risk exposure. In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 December was as follows:

	2019 Balance Sheet £'000	2019 Maximum exposure £'000	2018 Balance Sheet £'000	2018 Maximum exposure £'000
Non-current assets				
Quoted convertibles, bonds and preference shares at fair value through profit or loss	878	878	5,180	5,180
Current assets				
Accrued income	294	294	338	338
Cash and cash equivalents	780	780	3,071	3,071
	1,952	**1,952**	**8,589**	**8,589**

None of the Company's financial assets are past due and the application of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

Fair value of financial assets and liabilities. The book value of cash at bank and short–term bank loans and overdrafts included in these financial statements approximate to fair value because of their short–term maturity. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices and have been categorised as Level 1 and Level 2 within the Fair Value Hierarchy table on page 74. For details of bond maturities and interest rates, see page 28. For all other short–term debtors and creditors, their book values approximate to fair values because of their short–term maturity. The fair value of the long–term loan has been calculated at £5,086,000 as at 31 December 2019 (2018 – £5,161,000) compared to an accounts value in the financial statements of £4,987,000 (2018 – £4,983,000) (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency.

Gearing. The Company has in place a £10 million unsecured loan facility of which £7 million has been drawn down. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate. Gearing levels are monitored so that they remain within guidelines set by the Board.

19. **Income enhancement.** The SORP recommends that debt securities are accounted for on an effective yield basis with the associated adjustment being allocated to revenue. The Company has decided to allocate this adjustment to capital as explained in note 2(c). The effect of this treatment on revenue and capital is set out below.

As explained in note 2(f) revenue may utilise surplus management expenses that have arisen in capital but does not compensate capital for this tax effect as recommended by the SORP.

The effect of these income enhancement strategies on capital and revenue is summarised in the table below. There is a risk with these strategies that capital will be eroded unless the charges to capital are covered by gains elsewhere in the portfolio, and this is managed by investing in a portfolio of shares which in the long run is expected to provide adequate capital growth to absorb the effective yield adjustment while paying growing dividends which contribute to the pursuit of the Company's objectives.

Notes to the Financial Statements Continued

In following this strategy, the Directors recognise that there is only one class of shareholder.

	2019 Revenue £'000	2019 Capital £'000	2018 Revenue £'000	2018 Capital £'000
Finance costs arising on bank loan finance	(30)	(71)	(28)	(65)
Return on corresponding investments	(11)	11	64	(64)
	(41)	**(60)**	**36**	**(129)**

20. Fair value hierarchy. Under IFRS 13 'Fair Value Measurement' an entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 December 2019 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	87,930	–	–	87,930
Quoted bonds	b)	–	878	–	878
Total		**87,930**	**878**	**–**	**88,808**

As at 31 December 2018

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	61,663	–	–	61,663
Quoted bonds	b)	–	5,180	–	5,180
Total		**61,663**	**5,180**	**–**	**66,843**

a) Quoted equities. The fair value of the Company's investments in quoted equities has been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) Quoted bonds. The fair value of the Company's investments in quoted convertibles, bonds and preference shares has been determined by reference to their quoted bid prices at the reporting date. Investments categorised as Level 2 are not considered to trade in active markets.

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during any of the above periods.

21. **Related party transactions**

Directors fees and interests. Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on page 44.

Transactions with the Manager. Management, promotional activities, secretarial and administration services are provided by ASFML with details of transactions during the year and balances outstanding at the year end are disclosed in notes 4 and 5.

22. **Capital management policies and procedures.** The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

– the planned level of gearing, which takes account of the Investment Manager's views on the market;

– the level of equity shares in issue; and

– the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company does not have any externally imposed capital requirements.

23. **Subsequent events.** Subsequent to the period end, the Company's NAV has suffered as a result of a decline in stockmarket values. At the date of this Report the latest NAV per share was 307.40p as at the close of business on 11 March 2020, decline of 17.8% compared the NAV per share of 373.86p at the period end.

Alternative Performance Measures

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes IFRS and the AIC SORP. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies.

Total return. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Total return is considered to be an alternative performance measure. NAV total return involves investing the same net dividend in the NAV of the Company with debt at par value on the date on which that dividend was earned. Share price total return involves reinvesting the net dividend on the date that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 December 2019 and 31 December 2018.

2019	Dividend rate	NAV	Share price
31 December 2018	N/A	285.18p	224.00p
3 January 2019	1.95p	282.14p	225.50p
4 April 2019	1.95p	319.23p	270.50p
4 July 2019	1.95p	334.38p	288.50p
3 October 2019	1.95p	312.35p	273.50p
31 December 2019	N/A	373.86p	343.00p
Total return		**+34.4%**	**57.7%**

2018	Dividend rate	NAV	Share price
31 December 2017	N/A	341.12p	288.00p
4 January 2018	1.80p	339.42p	291.50p
5 April 2018	1.80p	327.65p	284.00p
12 July 2018	1.80p	339.87p	295.50p
4 October 2018	1.80p	321.46p	267.00p
31 December 2018	N/A	285.18p	224.00p
Total return		**–14.6%**	**–20.2%**

Discount to Net Asset Value per Ordinary Share. The amount by which the market price per Ordinary share of 343.00p (2018 – 224.00p) is lower than the net asset value per Ordinary share, expressed as a percentage of the net asset value per Ordinary share.

Dividend cover. Revenue return per share of 9.98p (2018 – 9.03p) divided by dividends per share of 8.25p (2018 – 7.35p) expressed as a ratio.

Net gearing. Net gearing measures the total borrowings of £6,987,000 (31 December 2018 – £6,983,000) less cash and cash equivalents of £780,000 (31 December 2018 – £3,071,000) divided by shareholders' funds of £82,660,000 (31 December 2018 – £63,052,000), expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due to and from brokers at the year end of £nil (2018 – £nil) as well as cash and cash equivalents of £780,000 (2018 – £3,071,000).

Ongoing charges. Ongoing charges is considered to be an alternative performance measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average daily net asset values with debt at fair value throughout the year.

	2019	**2018**
Investment management fees (£'000)	543	555
Administrative expenses (£'000)	314	374
Ongoing charges (£'000)	857	929
Average net assets (£'000)	71,351	72,296
Ongoing charges ratio	**1.20%**	**1.28%**

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations, which includes financing and transaction costs.

Corporate Information

The Company’s Investment Manager is a subsidiary of Standard Life Aberdeen plc. Assets under management and administration of the Group was £545 billion as at 31 December 2019.

Information about the Manager

Aberdeen Standard Fund Managers Limited

Aberdeen Standard Fund Managers Limited ("ASFML"), authorised and regulated by the Financial Conduct Authority, has been appointed as the alternative investment fund manager to the Company.

The day-to-day portfolio management has been delegated to Aberdeen Asset Managers Limited (AAML). Both ASFML and AAML are subsidiaries of Standard Life Aberdeen plc.

Aberdeen Standard Investments ("ASI") is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

The ASI Smaller Companies team consists of 9 investment professionals all based in Edinburgh; 5 investment managers/analysts, 3 analysts, and 1 quantative analyst who controls the "Matrix". The average investment experience is 17 years.

The team run Smaller Companies portfolios across UK, European and Global markets. All portfolios are managed under the same investment process and philosophy, driving consistency across the franchise.

The Investment Team Senior Managers

Harry Nimmo (MA Hons), MBA, Diploma in Surveying
Harry is head of the Smaller Companies equities team within ASI. He has over 30 years of investment management experience with ASI.

Abby Glennie (MA Hons) CFA
Abby is an Investment Director within ASI Smaller Companies team with responsibility for research and analysis of UK listed stocks in the Small and Mid cap sectors. She has over 12 years of investment management experience and joined ASI in 2013.

Investment Process

In managing the investment portfolio of the Company, the Smaller Companies Quality Growth Momentum philosophy is enhanced by using ASI's proprietary screening tool, 'The Matrix', to focus research efforts and stock selection process. The Matrix is a quantitative screening tool assessing potential and current investments. It is a powerful tool in helping the Manager identify a shortlist of investable stocks for further analysis and monitor the performance and prospects of the portfolio on an ongoing basis. Stocks that are identified in this way are then subjected to further analysis and may be selected for the portfolio following discussions with the management team of the investee company.

Investment characteristics

When building a portfolio of smaller companies, the Manager screens stocks using the Matrix and also considers a number of qualitative factors to help identify the best investment opportunities. Engaging with management teams is a core part of the investment process.

1. Quality
Investing in quality businesses is a key focus, and critical to investing in smaller companies in a lower risk manner. This includes analysing cash generation, balance sheet strength, visibility of revenue, the quality of a management team, and ESG factors. We are cautious on many highly cyclical or high leverage companies, or blue sky investments.

2. Sustainable growth
Investing in businesses where we have conviction in earnings growth being sustained over a number of years, accompanied in most cases by strong dividend growth. Revenue growth is often a combination of end market growth, with stock specific growth factors such a niche products or services, or entering adjacent geographies or end markets.

3. Momentum
Run your winners, Cut your losers. Momentum in earnings and price are drivers of outperformance in smaller companies.

4. Concentrate your efforts
The Matrix helps identify attractive candidates for inclusion in the portfolio, and reduces the risk that effort is spent on stocks that will not fulfil the criteria for inclusion within the portfolio. Focuses the managers research efforts of the most attractive and suitable investments.

Information about the Manager Continued

5. Invest for the long term
Buying tomorrow's larger companies, today. Turnover levels in the portfolio are maintained at lower levels, given the long term investment focus.

6. Management longevity
Founders retaining positions of authority within the companies after flotation, along with longevity of tenure by CEOs are a positive signal.

7. Valuation aware
Invest in companies which demonstrate positive earnings momentum, which the manager believes is a predictor of future performance. Comfortable paying premium multiples for these quality, higher growth businesses, as value alone is not a driver of outperformance over the long term in Smaller Companies.

Investor Information

How to Invest

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, for retail clients, shares can be bought directly through Aberdeen Standard Investment Trust Share Plan, Individual Savings Plan ("ISA") and Investment Plan for Children.

Aberdeen Standard Investment Plan for Children

Aberdeen Standard Investments runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Aberdeen Standard Investment Trust Share Plan

Aberdeen Standard Investments runs a Share Plan ("the Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%). Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Aberdeen Standard Investment Trust ISA

An investment of up to £20,000 can be made in the tax year 2020/21.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases where applicable. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax and dividend income is tax free.

ISA Transfer

You can choose to transfer previous tax year investments to Aberdeen Standard Investments which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Dividend Tax Allowance

The annual tax-free allowance on dividend income is £2,000 for the 2020/21 tax year. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Keeping You Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times and information on the Company may be found on its dedicated website (aberdeensmallercompanies.co.uk). This provides access to information on the Company's share price performance, capital structure, London Stock Exchange announcements, current and historic annual and half yearly reports and the the latest monthly factsheet on the Company issued by the Manager.

Shareholder Enquiries

For information on the Company or literature and any administrative queries relating to Aberdeen Standard investment trust products please contact:

Aberdeen Standard Investment Trusts,
PO Box 11020
Chelmsford
Essex CM99 2DB

Email: **inv.trusts@aberdeen-asset.com**
Website: **invtrusts.co.uk**
Telephone: 0808 500 0040

Terms and conditions for the Aberdeen Standard investment trust products can be found under the literature section of this website.

Investor Information Continued

Company's Registrars
If you have an administrative query which relates to a direct holding in the Company please contact the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: 0371 384 2030.

(lines are open 8.30 am to 5.30 pm, Monday to Friday; calls may be recorded and monitored randomly for security and training purposes).

Online Dealing providers and platforms
There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company, such as self-invested personal pension (SIPP). Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

AJ Bell You Invest; Alliance Trust Savings; Barclays Stockbrokers; Charles Stanley Direct; Halifax Share Dealing; Fidelity Personal Investing; Hargreave Hale; Hargreaves Lansdown; Idealing; Interactive Investor; Selftrade; The Share Centre; Stocktrade.

Discretionary Private Client Stockbrokers
If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management & Financial Advice Association at: **pimfa.co.uk**.

Financial Advisers
To find an adviser who recommends on investment trusts, visit: **unbiased.co.uk**

Regulation of Stockbrokers
Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:

Tel: **0800 111 6768** or
Website: **fca.org.uk/firms/systems-reporting/register/search**
Email: **register@fca.org.uk**

PRIIPS (Packaged Retail and Insurance-based Investment Products)
Investors should be aware that the PRIIPS Regulation requires the Manager, as PRIIP manufacturer, to prepare a key information document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Manager's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

Key Information Document ("KID")
The KID relating to the Company and published by the Manager can be found on the Manager's website at invtrusts.co.uk/en/investmenttrusts/literature-library.

Suitable for Retail/NMPI Status
The Company's shares are intended for investors, primarily in the UK, 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. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs, and intends to continue to do so for the foreseeable future, in order that its shares can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments ("NMPIs").

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investment products because they are shares in an investment trust.

Investor Warning
The Board has been made aware by Aberdeen Standard Investments (ASI) that some investors have received telephone calls from people purporting to work for ASI, or third parties, who have offered to buy their investment trust shares. These may be scams which attempt to gain personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from an investor is required to release the supposed payment for their shares. These callers do not work for ASI and any third party making such offers has no link with ASI. ASI never makes these types of offers and does not 'cold-call' investors in this way. If investors have any doubt over the veracity of a caller, they should not offer any personal information, end the call and contact ASI's investor services centre using the details provided below.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: **fca.org.uk/consumers/scams**.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

The information on pages 81 to 83 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the FCA.

Glossary of Terms and Conditions

Aberdeen Standard Investments	Aberdeen Standard Investments ("ASI") is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.
ASFML or AIFM or Manager	Aberdeen Standard Fund Managers Limited (ASFML) is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the alternative investment fund manager (AIFM) for the Company. It is authorised and regulated by the Financial Conduct Authority.
AAML or Investment Manager	Aberdeen Asset Managers Limited ("AAML" or "Investment Manager") is a subsidiary company of Standard Life Aberdeen plc which has been delegated responsibility for the Company's day-to-day investment management.
Alternative Performance Measures	An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
AIC	The Association of Investment Companies.
AIFMD or the Directive	The Alternative Investment Fund Managers Directive (AIFMD) is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Benchmark	This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the Numis Smaller Companies excluding Investment Trusts Index (effective from 1 January 2020) and was the FTSE SmallCap (exc Investment Trusts) Index for period up to 31 December 2019. The index averages the performance of a defined selection of listed companies over specific time periods. Performance is measured aganst the Composite Index which is comprised of: Numis Smaller Companies excluding Investment Trusts Index from 1 January 2020 FTSE SmallCap (exc Investment Trusts) Index to 31 December 2019
Closed-End Fund	A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
FCA	Financial Conduct Authority
Investment Trust	A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.

Key Information Document or KID	The Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.
Leverage	For the purposes of the Alternative Investment Fund Managers Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.
Net Asset Value ("NAV")	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Net Gearing/Cash	Net gearing/cash is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage.
Ongoing Charges	Ratio of expenses as percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.
PIDD	The pre-investment disclosure document made available by the AIFM in relation to the Company.
Premium	The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.
Price/Earnings (P/E) Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Standard Life Aberdeen plc or the Group	The Standard Life Aberdeen plc group of companies. Standard Life Aberdeen plc was formed by the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017.
Total Assets	Total Assets as per the balance sheet less current liabilities (before deducting prior charges as defined above).
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

General

Alternative Investment Fund Managers Directive Disclosures (unaudited)

ASFML and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which may be found on the Company's website: **www.aberdeensmallercompanies.co.uk**

There have been no material changes to the disclosures contained within the PIDD since its most recent update in March 2020.

The periodic disclosures as required under the AIFMD to investors are made below:

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report on pages 5 to 20 , Note 18 to the Financial Statements and the PIDD, together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Aberdeen Standard Fund Managers Limited ("the AIFM");
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretaries, Aberdeen Asset Management PLC on request (see contact details on page 91) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2019 are available on the Company's website.

Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 December 2019	1.16:1	1.17:1

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement. Changes to the information contained either within this annual report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which the AIFM may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

The information on this page has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Standard Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Aberdeen Smaller Companies Income Trust PLC (the "Company") will be held at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Thursday 30 April 2020 at 12.00 noon to transact the following business:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 11 inclusive will be proposed as ordinary resolutions and resolutions 12 and 13 will be proposed as special resolutions:

Ordinary Business

1. To receive the reports of the Directors and auditor and the audited financial statements for the year ended 31 December 2019.
2. To approve the Directors' Remuneration Policy.
3. To receive and adopt the Directors' Remuneration Report (except the Directors' Remuneration Policy) for the year ended 31 December 2019.
4. To re-elect Robert Lister as a Director of the Company.
5. To re-elect David Fletcher as a Director of the Company.
6. To re-elect Dagmar Kent Kershaw as a Director of the Company.
7. To re-elect Barry Rose as a Director of the Company.
8. To re-appoint Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
9. To authorise the Directors to determine the remuneration of the auditor for the year ended 31 December 2020.
10. That the Company shall continue as an investment trust.

Special Business

11. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,960, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

12. That, subject to the passing of resolution 11 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 11 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power: -

    (i) expires on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and;

    (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to 10% of the Ordinary shares in issue.

    This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 11 in the notice of meeting" were omitted.

13. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally 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 fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:
    (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);
    (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) 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 relating to a share on the trading venue where the purchase is carried out; and
    (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 June 2021 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

By order of the Board
Aberdeen Asset Management PLC
Secretary
24 March 2020

Registered office:
1 George Street
Edinburgh EH2 2LL

NOTES:

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.
2. A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Freepost RTHJ-CLLL-KBKU, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 8LU so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.
3. The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Notice of Annual General Meeting Continued

6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. As an alternative to appointing a proxy using the form of proxy or CREST, members can appoint a proxy online at www.sharevote.co.uk. In order to appoint a proxy using this website, members will need their Voting ID, Task ID and Shareholder Reference Number, printed on the face of the accompanying form of proxy. Full details of the procedures are given on the website. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk using their user ID and password. Once logged in click "View" on the "My Investments" page, click on the link to vote and then follow the on screen instructions.
8. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
9. The right to vote at a meeting is determined by reference to the Company's register of members at 6.30pm two business days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.
10. As at close of business on 12 March 2020 (being the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 12 March 2020 is 22,109,765.
11. A 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 him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes (i) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.
12. Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
14. No Director has a service contract with the Company. Copies of the Directors' letters of appointment are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the Company's registered office and for 15 minutes prior to, and at, the meeting.
15. Information regarding the Annual General Meeting is available from the Company's website; **www.aberdeensmallercompanies.co.uk**

16. As a member, shareholders have the right to put questions at the meeting relating to business being dealt with at the meeting.
17. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

Corporate Information

Directors
Robert Lister (Chairman)
David Fletcher
Dagmar Kent Kershaw
Barry Rose

Manager, Secretary and Registered Office
Alternative Investment Fund Manager
Aberdeen Standard Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH
(Authorised and regulated by the Financial Conduct Authority)

Investment Manager
Aberdeen Asset Managers Limited
(Authorised and regulated by the Financial Conduct Authority)

Secretary and Registered Office
Aberdeen Asset Management PLC
1 George Street
Edinburgh EH2 2LL

Points of Contact
Manager - Customer Services Department
Telephone: 0808 500 0040
(Lines open 9.00 am to 5.00 pm, Monday to Friday)
Email: inv.trusts@aberdeen-asset.com

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder Helpline: 0371 384 2030*
Overseas helpline number: +44 (0)121 415 7047

(*Lines open 8.30 am to 5.30 pm, Monday to Friday excluding bank holidays. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

Depositary
BNP Paribas Securities Services, London Branch
10 Harewood Avenue
London NW1 6AA

Brokers
Winterflood Securities
The Atrium Building
Cannon Bridge House
25 Dowgate Hill
London EC4R 2GA

Auditor
Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

United States Internal Revenue Service FATCA Registration Number ("GIIN")
DGR5S1.99999.SL.826

Legal Entity Identifier
213800J6D2TVHRGKBG24

Company Registration Number
SC137448 (Scotland)

Website
www.aberdeensmallercompanies.co.uk

Visit us online
aberdeensmallercompanies.co.uk