



# abrdn Smaller Companies Income Trust plc

Alternative Investment Fund Managers Directive – Pre-investment Disclosure  
Document

Article 23 AIFMD/Rule 3.2 FCA FUND Sourcebook

April 2021

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This document is issued by Aberdeen Standard Fund Managers Limited as the alternative investment fund manager of abrdn Smaller Companies Income Trust plc (the "Company") in order to make certain information available to prospective investors, prior to such investors' investment in the Company, in accordance with the requirements of the FCA FUND Sourcebook implementing the EU Alternative Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom and is being made available on the Company's website: [www.abrdnsmallercompaniesincome.co.uk](http://www.abrdnsmallercompaniesincome.co.uk).

Defined terms used in this pre-investment disclosure document can be found in section 20 below.

## 1. A description of the investment strategy, policy and objective of the Company, types of assets the Company may invest in, investment techniques, principal risks and investment restrictions

Information about the Company's investment strategy, policy and objective, the types of assets in which the Company may invest, the investment techniques, principal risks and any investment restrictions is contained in the Annual Report which is available on the Company's website.

While the Company is not a fund of funds, it may make investments through collective investment schemes and in smaller UK listed companies.

## 2. Key risks

### 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.

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Description	Mitigating Action
<b>Investment and Market risk</b> 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.

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Description	Mitigating Action
<p><b>Investment portfolio management</b> Investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.</p>	<p>The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has 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.</p>
<p><b>Major market event or geo-political risk</b> The Company is exposed to stockmarket volatility or illiquidity as a result of a major market shock due to a national or global crisis. The impact of such risks, associated with the portfolio or the Company itself, could result in disruption on the operations of the Company and losses.</p>	<p>External risks over which the Company has no control are always a risk. The Company does what it can to address these risks where possible, not least operationally and to try and meet the Company's investment objectives.</p> <p>The Board is cognisant of the risks arising from the outbreak and spread of the Coronavirus around the world, including stockmarket instability and longer term economic effects, and the impact on the operations of the third-party suppliers, including the Manager. The Manager has undertaken an assessment of the Company's portfolio and is in close communication with the underlying investee companies in order to navigate and guide the Company through the current challenges. The Manager assesses and reviews the investment risks arising from Covid-19 on companies in the portfolio, including but not limited to: employee absence, reduced demand, supply chain breakdown, balance sheet strength, ability to pay dividends, and takes the necessary investment decisions.</p> <p>The Manager has extensive business continuity procedures and contingency arrangements to ensure they are able to service their clients, including investment trusts. The services from third parties, including the Manager, have continued to be supplied effectively and the Board will continue to monitor arrangements through regular updates from the Manager.</p>
<p><b>Gearing risk</b> 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-g geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.</p>	<p>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.</p> <p>The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million one year variable rate loan. As at 31 December 2020, £7 million was drawn down (£5 million fixed rate and £2 million variable rate).</p>

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Description	Mitigating Action
<p><b>Income and dividend risk</b></p> <p>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.</p>	<p>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.</p>
<p><b>Operational risk</b></p> <p>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.</p>	<p>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.</p>

### 3. Risk management systems

The directors of Aberdeen Standard Fund Managers Limited collectively assume responsibility for ASFML's obligations under the AIFMD including monitoring the Company's risk profile during the year.

ASFML, as a fully integrated member of the abrdn plc group of companies, receives a variety of services and support in the conduct of its business activities from the resources of the Group. ASFML conducts its risk oversight, including in the conduct of its risk oversight function, through the operation of the Group's risk management processes and systems. Further details of the Group's risk management programme and systems are set out in the Appendix to this document.

### 4. Leverage

#### Leverage limits

The maximum leverage which the Manager is entitled to employ on behalf of the Company (expressed as a ratio to total assets) is:

Commitment Method	2.0x
Gross Method	2.5x

#### Types of leverage

Although leverage is often used as another term for gearing, under the AIFMD regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. It defines two types of leverage, the gross method and the commitment method. These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect 'netting' or 'hedging arrangements'. Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels

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under both methods and this is disclosed above. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's Articles of Association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes such as stock-lending). Typically, leverage will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities.

Leverage is considered in terms of the Company's overall 'exposure' to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. ASFML is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its net asset value with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- Include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities
- Exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond
- Include derivative instruments which are converted into the equivalent position in their underlying assets
- Exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known
- Include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed
- Include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable

Exposure values under the commitment method basis are calculated on a similar basis but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The calculation of leverage assumes that a leverage ratio of 1.00:1 equates to zero leverage. A ratio of less than 1.00:1 would mean that the portfolio included uninvested cash whilst a ratio above 1.00:1 would mean that the portfolio had leverage to the ratio amount above 1.00:1.

The Company does not have in place any collateral or asset reuse arrangements.

## 5. Modification of investment policy

In accordance with the FCA Listing Rules, any material change to the Company's investment policy will require the FCA's prior approval as well as the approval of Shareholders. In considering what is a material change the Company must have regard to the cumulative effect of any changes since Shareholders last had the opportunity to vote.

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### 6. Contractual relationship between the Company and Investors, applicable law and the enforcement of judgements

The Company is incorporated as a public limited company under the laws of Scotland. Investors who acquire shares in the Company will do so subject to the Articles. The Articles are one of the Company's constitutional documents and contain the rights and restrictions attaching to the Company's shares. The Articles may only be amended by way of a special resolution. A shareholder's liability to the Company will be limited to the value of the shares held by such shareholder.

As the Company is incorporated in Scotland, it may not be possible for an investor located outside that jurisdiction to effect service of process upon the Company within the local jurisdiction in which that investor resides. All or a substantial portion of the assets of the Company may be located outside of the local jurisdiction in which an investor resides and, as a result, it may not be possible to satisfy a judgment against the Company in such local jurisdiction or to enforce a judgment obtained in the local jurisdiction's courts against the Company.

A number of legal instruments provide for the recognition and enforcement in Scotland of judgments given in other states. These include the Brussels Regulation, in relation to judgments made in most EU member states, and domestic legislation implementing the terms of international conventions. Where no particular legal instrument applies, a judgment creditor may nevertheless have rights to seek to enforce a judgement under the common law.

Details on how to invest in abrdn Smaller Companies Income Trust plc are set out in the Annual Report.

### 7. Information on the AIFM, depositary and service providers

#### AIFM/Manager

The Company has appointed Aberdeen Standard Fund Managers Limited, which is a company limited by shares and incorporated in England and Wales, as its alternative investment fund manager. The Manager is a subsidiary of abrdn plc, a company incorporated in Scotland.

The Manager is authorised and regulated by the FCA as an alternative investment fund manager. Pursuant to the Management Agreement, the Manager provides investment management services (including portfolio management), risk management services and general administrative services to the Company.

The duties of the Manager also include (but are not limited to) the following:

- The proper valuation of the Company's assets and the calculation and publication of the Net Asset Value of the Company
- To review its delegation of the portfolio management function to the Investment Manager on an ongoing basis
- To ensure that appropriate and consistent procedures are established so that a proper and independent valuation of the assets of the Company can be performed
- To implement a risk management system to identify, measure and manage appropriately all risks relevant to the Company's investment strategies and to review this system on an annual basis
- To ensure that a single depositary is appointed to ensure, among other things, the proper monitoring of the Company's cash flows and the safe-keeping of the Company's assets that can be held in custody
- To employ an appropriate liquidity management system
- To adopt procedures enabling it to monitor the liquidity risk of the Company and ensure that the liquidity profile of the Company's investments complies with its underlying obligations
- To use adequate and appropriate human and technical resources necessary for the proper management of the Company
- To make available an annual report for the Company no later than six months following the end of its annual accounting period

The Management Agreement contains customary termination provisions and may, in normal circumstances, be terminated on 6 months' written notice by the Company or 12 months' notice by the Manager. The Company may also terminate the Management Agreement immediately inter alia if the Manager ceases to maintain its regulatory

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permission to act as AIFM or if the Investment Manager ceases to maintain its regulatory permissions. In addition, either party may terminate the agreement immediately by notice upon the occurrence of certain events including the insolvency or winding up of the other party and a material breach of contract. The Company is also entitled to terminate the agreement with immediate effect following a change of control of the Manager without the Company's prior agreement.

The Manager has delegated the portfolio management of the Company to Aberdeen Asset Managers Limited. Further details of the delegation arrangements are set out in paragraph 9 below.

## Depository

The Company has appointed BNP Paribas Securities Services, London Branch to act as its depository. Pursuant to the Depository Agreement, the Depository must carry out the duties specified in AIFMD, including:

- Safekeeping of the assets of the Company which are entrusted to it
- Cash monitoring and verifying the Company's cash flows
- Oversight of the Company and the Manager, including
  - Ensuring that the sale, issue, re-purchase, redemption, transfer, buy back and valuation of the Company's shares are carried out in accordance with the Company's constitutional documentation and applicable laws, rules and regulations
  - Ensuring that in transactions involving the Company's assets the consideration is remitted to the Company within the usual time limits
  - Ensuring that the Company's income is applied in accordance with the Company's constitutional documentation and applicable laws, rules and regulations
  - Carrying out instructions received from the Manager unless they conflict with the Company's constitutional documentation or any applicable law, rule or regulation, or the provisions of the Depository Agreement

In carrying out such functions the Depository must act honestly, fairly, professionally, independently and in the interests of shareholders.

The Depository is liable to the Company and/or shareholders for the loss of a financial instrument held in custody by the Depository or a delegate, unless the Depository is permitted to discharge, and has discharged, such liability under AIFMD and the Depository Agreement. The Manager will inform investors of any changes with respect to the Depository's liability for the loss of a financial instrument held in its custody. The Depository is also liable to the Company and/or the shareholders for all other losses suffered by them as a result of the Depository's negligent and/or intentional failure to properly fulfil its duties.

Under the Depository Agreement, the Company has indemnified the Depository against certain liabilities suffered by the Depository arising directly out of the performance of its obligations under the Depository Agreement, except in the case of any liability arising from the fraud, negligence, intentional failure or breach of contract of the Depository or any of its affiliates or delegates, or the loss of financial instruments as described above.

The Company, the Manager and the Depository may terminate the Depository Agreement at any time by giving 90 days' notice in writing. The Depository may only be removed from office when a new depository is appointed by the Company.

## Auditor

Ernst & Young LLP has been appointed as the Company's auditor responsible for auditing the annual financial statements in accordance with auditing standards and, as appropriate, regulations, and for providing its report to the Company's shareholders in the annual report and financial statements. In addition, applicable law and regulation may require other reports to be prepared for the Company and, as the appointed auditor of the Company, the Auditor will undertake such work under the auditor service agreement between the Company and the Auditor.

## Registrar

The registrar of the Company is Equiniti Limited and is responsible for keeping the register of shareholders, which may be inspected at the Registrar's office at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, during normal business hours.

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## Stockbroker

Winterflood Securities Limited has been appointed as the Company's stockbroker to provide the Company with corporate broking and associated financial advisory services.

Investors' rights against service providers will vary depending on a range of factors. If the relevant service provider is an authorised person under FSMA carrying out a regulated activity with respect to the Company, then a contravention by it of a Rule contained within the FCA Handbook may, in certain circumstances, give rise to a claim for breach of statutory duty against that service provider by an investor who suffers loss as a result of that contravention. Investors may also be afforded certain rights against service providers under general law.

## 8. Protection from professional liability risks

The Manager has effective internal operational risk management policies and procedures in order to appropriately identify, measure, manage and monitor operational risks, including professional liability risks, to which it is or could reasonably be exposed. These policies and procedures are subject to regular review and the operational risk management activities are performed independently as part of the risk management policy.

The management of operational risk, through the risk and control self-assessment process, is aimed at identifying risks in existing processes and improving existing controls to reduce their likelihood of failure and the impact of losses. All risks and events are facilitated via the internal risk management system, which provides a platform to facilitate the convergence of governance, risk and compliance.

The Manager is required to cover professional liability risks, such as the risk of loss of documents evidencing title of assets to the Company, and complies with such requirement by maintaining an amount of its own funds in accordance with AIFMD.

## 9. Delegation arrangements and management of conflicts

### Delegation arrangements

From time to time, the AIFM may sub-delegate certain management functions to its affiliated subsidiaries, including Aberdeen Asset Managers Limited, or third parties. The AIFM has delegated:

- Portfolio management to the Investment Manager, Aberdeen Asset Managers Limited
- Company secretarial duties to Aberdeen Asset Management PLC
- Administration to Aberdeen Asset Managers Limited, which in turn has been sub-delegated to BNP Paribas Fund Services UK Limited

### Portfolio management

The Manager has sub-delegated portfolio management to the Investment Manager, which is authorised by the FCA to conduct fund management. The Investment Manager is part of the abrdn plc group of companies of which the Manager is also part.

Pursuant to the Investment Management Agreement the Investment Manager will be responsible for advising on the purchase and sale of investments within the categories allowed. The Investment Manager has discretion to take day to day investment decisions and to deal in investments in relation to the investment management of the Company, without prior reference to the Manager. The Manager is entitled to give further instructions to the Investment Manager. Notwithstanding the delegation of portfolio management to the Investment Manager, the Manager will at all times remain responsible for the portfolio management function, and the Investment Manager has undertaken to abide by, and be subject to, the Manager's overall supervision, direction and control.

### Company secretarial duties

The Manager has delegated the company secretarial duties to Aberdeen Asset Management PLC. Pursuant to the CoSec Agreement, the Company Secretary provides company secretarial services including convening meetings of Directors, and general meetings of the Company, keeping the statutory books and records of the Company,

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maintaining the Company's register, preparing and delivering company announcements and other company secretarial duties properly or reasonably performed by the secretary of a company or as the Manager may reasonably require.

## Administration

The Manager has delegated the administration of the Company to Aberdeen Asset Managers Limited, which in turn has sub-delegated this function to BNP Paribas Fund Services UK Limited. The Administrator will assist the Manager in calculating the Company's Net Asset Value, as well as providing fund accounting services in respect of the Company.

## Depository delegation

The Depository has given notice that it will delegate certain safekeeping functions entrusted to it by the Company to various formally appointed delegates and third parties including in countries outside the domicile of the Company or the Depository (including central securities depositories, securities settlement systems, clearing houses, book-entry securities system and similar depositories, systems or facilities) in accordance with the provisions of AIFMD and the Depository Agreement.

## Conflicts of interests

The Manager and the Investment Manager are committed to treating clients and shareholders fairly and have implemented procedures and processes to ensure that this is the case. In particular, the Manager and the Investment Manager have approved and adopted the Group's Conflicts of Interests Policy.

The objective of the Conflicts of Interests Policy is to ensure the fair treatment of clients and shareholders in cases of conflicts of interests or potential conflicts of interests which may arise in the course of providing management, advisory or administrative services to the Company.

To achieve this objective, the Conflicts of Interests Policy seeks to ensure that the Company and its service providers and the Manager and its delegates have adequate organisational and structural measures in place:

- To identify circumstances which constitute or may give rise to a conflict of interests entailing a material risk of damage to the interests of the Company or its shareholders
- To provide procedures, mechanisms and systems to manage or resolve any such conflicts of interests; where such conflict cannot otherwise be avoided, ensuring that the Company, the Manager and the Investment Manager always act in the best interests of shareholders
- To maintain a proper record of any such conflict or potential conflict and to ensure proper reporting to affected shareholders

The following circumstances have been identified as constituting or potentially giving rise to conflicts of interests:

- The Depository is responsible for the oversight of the Manager's discharge of its duties, including the administration functions that have been delegated to the Administrator. The Depository and the Administrator are in the same group of companies
- Directors of the Manager are senior executives of, and employed by the Group
- The Manager, the Investment Manager and the Company Secretary are affiliated entities of abrdn plc. The key terms of the Investment Management Agreement and the CoSec Agreement are similar to those which might be agreed between independent third parties
- The Investment Manager has discretion to enter into foreign exchange hedging transactions and borrowings on behalf of the Company. The Investment Manager may appoint an affiliate of any existing service provider or any other third party to act as a counterparty in the execution of foreign exchange transactions in connection with the currency hedging activities of the Company and/or to implement the currency hedging strategy
- abrdn plc and its affiliates may hold or trade in securities and instruments of the same type as the securities and instruments held or traded in by the Company; they may also utilise the same or similar strategies as those adopted by the Investment Manager on behalf of the Company. In addition, the Company may make investments in other funds managed or advised by abrdn plc or its affiliates

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In order to ensure that actual and potential conflicts of interests are appropriately identified, managed and monitored, abrdn plc has established a formal committee which operates under documented terms of reference and which meets regularly to maintain oversight of the Conflicts of Interests Policy and the management of live conflicts situations. abrdn plc maintains a documented matrix of known or inherent conflicts of interests, as well as a documented register of live actual or potential conflicts of interests arising in the carrying on of its business operations.

### 10. Valuation procedures

The Company's accounting policies, including in relation to the valuation of investments, are set out in the 'Notes to the Financial Statements' in the Annual Report.

The Company has delegated a number of its duties to the Manager including the proper valuation of the Company's assets, the calculation of the Net Asset Value of the Company and the publication of such Net Asset Values. Accordingly, the Manager has approved and adopted the Group's Valuation Policy. The Manager considers that the Valuation Policy contains appropriate and consistent procedures to ensure that a proper and independent valuation of the assets of the Company can be performed.

The Administrator has been engaged by Aberdeen Asset Managers Limited to assist the Manager in calculating the Net Asset Value of the Company. In practice, this means that the Administrator sources prices for the assets of the Company and calculates a proposed Net Asset Value. These calculations are presented to the Manager, which discusses any particular pricing issues with the Administrator and may ultimately decide whether any prices require adjustment before the Net Asset Value of the Company is adopted. This may be the case where the price of an asset is hard to value and the Administrator has used fair value pricing, or where the price of an asset has increased or fallen by a significant proportion since its previous valuation.

### 11. Liquidity risk management and redemption rights

The Manager has a Liquidity Policy in place. For closed ended funds such as the Company, given their very nature, this policy focuses, primarily, upon the potential issues with regard to the mis-pricing of illiquid securities. abrdn plc's market risk department is responsible for providing asset level liquidity evaluation reports on a periodic (eg monthly) basis to the Manager, the Investment Manager and other abrdn plc entities. This market risk department uses various risk assessment methods and sophisticated portfolio modelling, via a tool called APT (Advanced Portfolio Technologies), to measure the risk profile of assets held by portfolios and the risk of there being portfolio illiquidity related to the assets. This measurement enables the provision of management information to the Manager and the Investment Manager to enable those risks to be monitored. The portfolio modelling and measurement looks at the following risks: (i) asset liquidity risk (where a number of methods are used to measure liquidity, depending upon the nature of the asset – eg traded volumes reported on an exchange as a percentage of the total outstanding of the specific asset or with reference to the depth of the market using the bid-ask spread as an indicator); and (ii) contingency arrangements or liquidity buffers.

There are no redemption rights attaching to shares in the Company.

### 12. Fees, charges and expenses

The Manager charges an annual fee of 0.75% calculated on the Company's net assets, calculated and paid monthly. The Company also incurs annual fees, charges and expenses in connection with administration, directors' fees, promotional activities, auditors' fees, lawyers' fees and depositary charges. The Company's ongoing charges (which include the management fee) for the last reported financial year, amounted to 1.35%.

### 13. Fair treatment/preferential treatment of investors

The Manager is subject to the FCA's rules on treating customers fairly and has adopted a policy regarding treating customers fairly, the operation of which is overseen by a formal committee comprised of senior managers from the Group's various business units and from its risk division. The role of the Conduct Risk Committee, which meets regularly and operates under documented terms of reference, is to ensure, among other matters, that the Conduct

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Risk Policy is implemented and maintained and to consider any actual or potential Conduct Risk Policy issues arising in connection with the Group carrying on its business operations. General awareness training on the Conduct Risk Policy and what it means to the Group and its customers is delivered to all abrdn plc staff.

No investor in the Company obtains preferential treatment or the right to obtain preferential treatment.

## 14. Availability of the AIF's latest annual report

The Company's latest annual report is available on the Company's website:  
[www.abrdnsmallercompaniesincome.co.uk](http://www.abrdnsmallercompaniesincome.co.uk)

## 15. Procedure and conditions for the issue and sale of shares

The issue of new shares by the Company, either by way of a fresh issue of shares or by way of the sale of shares from treasury, is subject to the requisite shareholder authorities being in place and all FCA listing rule requirements having been met. Shares in the Company can also be bought in the open market through a stockbroker. They can also be purchased through the Group's savings schemes and qualify fully for inclusion within tax-efficient ISA wrappers. Further information about how shares in the Company may be purchased is set out in the section headed 'Investor Information' in the Annual Report.

## 16. Latest NAV of the AIF

The Company's NAV is published by way of an announcement on a regulatory information service.

For internet users, additional data on the Company, including the latest published NAV, the closing price of ordinary shares for the previous day of trading on the London Stock Exchange, performance information and a monthly factsheet, is available on the Company's website: [www.abrdnsmallercompaniesincome.co.uk](http://www.abrdnsmallercompaniesincome.co.uk)

## 17. AIF's historical performance

The Company's historical performance data, including copies of the Company's previous annual report and accounts, are available on the Company's website: [www.abrdnsmallercompaniesincome.co.uk](http://www.abrdnsmallercompaniesincome.co.uk)

## 18. Prime brokerage

The Company has not appointed a prime broker.

## 19. Periodic disclosures

The Manager will, at least as often as the annual report and accounts are made available to Shareholders, make the following information available to shareholders:

- Any changes to (i) the maximum level of Leverage that the Manager may employ on behalf of the Company and (ii) any right of reuse of collateral or any guarantee granted under any leveraging arrangement
- The total amount of Leverage employed by the Company
- The percentage of the Company's investments which are subject to special arrangements resulting from their illiquid nature
- The current risk profile of the Company outlining (i) measures to assess the sensitivity of the Company to the most relevant risks to which the Company is or could be exposed and (ii) if risk limits set by the Manager have been or are likely to be exceeded and where these risk limits have been exceeded, a description of the circumstances and, the remedial measures taken
- The risk management systems employed by the Manager outlining the main features of the risk management systems employed by the Manager to manage the risks to which the Company is or may be exposed. In the case

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of a change, information relating to the change and its anticipated impact on the Company and shareholders will be made available

The Manager will inform shareholders as soon as practicable after making any material changes to its liquidity management system and procedures. Any material change to the periodic disclosures will be provided to shareholders by way of an announcement to a regulatory news service.

## 20. Defined terms

The following defined terms are used in this pre-investment disclosure document:

Administrator	BNP Paribas Fund Services UK Limited
AIFMD	European Union Directive 2011/61/EU, together with its implementing measures
AIFM or Manager or ASFML	Aberdeen Standard Fund Managers Limited
Annual Report	The Company's Annual Report and Accounts for the year ended 31 December 2020
Articles	The Company's articles of association, as amended from time to time
Auditor	Ernst & Young LLP
Brussels Regulation	Council Regulation (EC 44/2001) of 22 Dec 2000, concerning the recognition and enforcement in England and Wales of judgments given by the courts of most EU member states in civil and commercial matters
Commitment Method	The commitment method for calculating leverage as prescribed under Article 8 of the AIFMD, which excludes certain hedging instruments from the calculation
Company or AIF	abrdn Smaller Companies Income Trust plc
Company Secretary	Aberdeen Asset Management PLC
Conduct Risk Committee	abrdn's formal committee for overseeing, among other matters, the Conduct Risk Policy
Conduct Risk Policy	abrdn's documented policy regarding treating customers fairly
CoSec Agreement	The company secretarial agreement between the Manager and Company Secretary dated 17 July 14
Conflicts of Interests Policy	abrdn's documented conflicts of interests policy
Depository	BNP Paribas Securities Services, London Branch
Depository Agreement	Depository agreement among the Company, the Manager and the Depository dated 14 July 14
FCA	Financial Conduct Authority
FCA Handbook	The FCA's Handbook on rules and guidance
FSMA	Financial Services and Markets Act 2000, as amended
Gross Method	The gross notional method for calculating leverage as prescribed under Article 7 of the AIFMD, which includes certain hedging instruments within the calculation
<b>Group</b>	abrdn plc and its subsidiaries
Investment Manager	Aberdeen Asset Managers Limited
Investment Management Agreement	Investment Management agreement between the Manager and the Investment Manager dated 17 July 2014

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Leverage	any method by which the AIFM increases the exposure of the Company whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means
Liquidity Policy	abrdn plc's documented policy regarding liquidity risk management
Management Agreement	Management agreement between the Company and the Manager dated 14 July 14 and subsequent amendments agreed between the parties
Net Asset Value or NAV	The net asset value of the Company
Ongoing Charges	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.
Registrar	Equiniti Limited
Shareholders	shareholders of the Company
Stockbroker	Winterflood Securities Limited
Valuation Policy	abrdn plc's documented valuation policy regarding the production and oversight of net assets values of collective funds in the Europe, Middle East and Africa region

### **Other important information:**

Issued by Aberdeen Standard Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered Office: Bow Bells House, 1 Bread Street, London, EC4M 9HH. Registered in the United Kingdom No. 00740118. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.



# Appendix to Pre-investment Disclosure Document

Aberdeen Standard Fund Managers Limited: Risk management

## Risk Management function

abrdn plc and its subsidiaries ("the Group") is committed to building and continuously improving a sound and effective system of internal control and a risk management framework that is embedded within its operations; this is the Group's first line of defence.

The Group's Risk Division, as the second line of defence, exists to support management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Conduct & Compliance, Operational Risk and investment risk Oversight. The team is headed by the Group's CRO, 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 Risk Division and reports directly to the Group CEO and to the chair of 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; it is the Group's third line of defence.

The Group's corporate governance structure is supported by several committees that bring together the Group's subject matter experts from different departments, to assist the Boards of Directors of abrdn plc, its subsidiaries and the funds to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those that deal with investment recommendations to the Boards. The specific goals and guidelines on the functioning of these committees are described in their respective terms of reference.

### Description of the process of identifying, assessing and managing risks

- **Market risk:** Is monitored through factor modelling used to calculate both absolute and relative ex ante quantities such as tracking error (TE) and Value at Risk (VaR). The VaR is computed on a NAV basis as the maximum loss that the portfolio should incur over 20 days, 99% of the time under normal market conditions. The fund's portfolio risks are decomposed into intuitive components to pinpoint areas of unexpected market risk. The techniques are applied to all relevant asset classes. The market risk is further monitored through the computation of the level of leverage by both the gross and net approach. The leverage is calculated by converting each FDI into the equivalent position in the underlying assets of those derivatives, on a NAV basis. The market risk linked to the concentration risk is mitigated through investment restrictions set according to the basic principle of diversification.
- **Liquidity risk:** The Group has a Liquidity Risk Management Policy in place applicable to the funds and set out in accordance with its overall Risk Management Process, relative to the size, scope and complexity of the funds. Liquidity Risk is monitored on both the asset and liability sides. To measure and monitor asset liquidity risk the Group employs a number of methods specific to the underlying assets. In all cases, the approach is to reference the actual holdings of the sub-fund against a true measure of the market at both an aggregate and a position level. The Group has implemented a Group Pricing Policy which details the operational responsibilities for pricing assets, this policy is owned and overseen by the Group pricing Committee. On the liability side, investor transactions and, beyond this, investor behaviour are the main driver of liquidity within each sub-fund. In this context, the articles and prospectuses contain certain key provisions or limits which provide protection to the funds and ultimately investors, in situations where liquidity might become a concern. In addition,

the fund receives and analyses periodic reports in respect of the shareholder concentration within each sub-fund. Any shareholder concentrations and transactional behaviour are identified at sub-fund level and any particular concerns noted are escalated to the relevant Group Committee and respective Boards, if material.

- **Credit and counterparty risk:** The credit and counterparty risks linked to derivatives transactions are managed through processes outlined in the Group's Counterparty Credit Risk Policy. This Policy underpins on the following principles: Internal Credit assessments; credit limits; exposure calculation and oversight and Control. Credit research on counterparties is carried out by the Credit Investment Team. Research is conducted on the basis of qualitative and quantitative analysis and is presented for discussion at the Credit Committee on a monthly basis. Each counterparty is reviewed at least once per annum. Furthermore the Risk and Exposure Committee (REC) and/or credit Committee can impose house level restrictions on concentrations. Credit risk exposures are calculated net of collateral received. The methodology for calculating an amount for potential exposure arising from movements in mark to market is approved by the REC. Acceptable collateral and other commercial and credit terms for inclusion in the International Swap and Derivative Association (ISDA) documentation is defined in the Group Derivative Management Policy. Counterparty credit exposures are monitored against internal limits by an investment control team and monitored by the Group Credit Committee and Risk and Exposure Committee.
- **Legal risk:** All key contractual arrangements entered into by the funds are reviewed by the Legal Department and, where required, by external legal counsel. If these contracts refer to delegation arrangements, where applicable, there is an operating memorandum defining information flows between the parties, frequency of services and deadlines, a clear attribution of rights and responsibilities of each party and, when applicable, the key performance indicators to measure performance. Any litigation issues are also handled by the Legal Department.

Each OTC derivatives are framed within the legal provisions of the ISDA Master agreement which defines the rights and obligations of parties engaging in derivatives trading. The ISDA master agreements are negotiated and signed between each umbrella/sub-fund and the counterparty. The Credit Support Annex (CSA) is a legally binding document which is annexed to the ISDA agreement and details the Minimum Transfer Amount (MTA) or collateral required by AAML when engaging in OTC derivatives trading with counterparties. The Group Derivative Management Committee is responsible for approving the commercial terms associated to derivative documentation for the Group.

- **Tax risk:** The Group uses external tax consultants to advise on tax structuring, transactions and tax reporting.
- **Operational risk:** The Operational Risk Management Framework ensures that the operational risks taken and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented. The identification, measurement, management and monitoring of operational risk within the Group are achieved through the use of the Group's Operational Risk Management Framework System, SHIELD. This system provides the following key Risk Management Modules:
  - *Event Management:* This module serves as a historical loss database, in which any operational failures, loss and damage experience (Events) will be recorded. The records include professional liability damages. The process for

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recording, investigation and mitigation of Events aims to ensure that they are not repeated.

- *Issues and Actions Plan*: The issues and actions module provides a standardised mechanism for identifying, prioritising, classifying, escalating and reporting internal audit findings and other on-going / unresolved matters impacting the Group from a risk or regulatory perspective (Issues).
- *Risk and Control Self Assessment (RCSA)*: The RCSA process is to ensure key risks and key controls are identified and managed effectively in order to satisfy, at a Group level, Internal Capital Adequacy (ICAAP) requirements. The RCSA also provides a systematic and holistic means of identifying risk and control gaps that could impact business or process objectives which are agreed by senior management to complete.
- *Business Continuity Plan (BCP)*: Is in place and designed for invocation where there has been significant disruption to normal business functions at any abrdn plc office that is likely to last longer than 24 hours.

### Measuring risk

Where appropriate the Group applies the following measurements for each fund:

- **Leverage**: Has the effect of gearing a fund's expected performance by allowing a fund to gain greater exposure to underlying investment opportunities (gains and losses). The higher the leverage the greater the risk (potential loss).
- **Volatility, Value-at-Risk (VaR) and Conditional VaR (CVaR)**: Volatility measures the size of variation in returns that a fund is likely to expect. The higher the volatility the higher the risk. VaR measures with a degree of confidence the maximum the fund could expect to lose in any one given day, assuming a normal (Gaussian) distribution, this is a function of the volatility of the fund. The higher the volatility, the higher the VaR, the greater the risk. CVaR calculates the expected loss, under the assumption that the VaR has been reached.
- **Tracking error (TE)**: Measures the expected magnitude of divergence of returns between the fund and benchmark over a given time.
- **Systematic and stock specific risk**: Systematic risk represents the proportion of a fund's risk that is attributable to market exposure; and specific risk represents the risk that is intrinsic to individual stocks (i.e. particular to a given stock's attributes).
- **Stress test and scenario analysis**: Captures how much the current portfolio will make or lose if certain market conditions occur.
- **Concentration risk**: By grouping the portfolio through various different exposures: country, sector, issuer, asset etc., to identify where concentration risk exists.

### Escalation and reporting

The Group recognises timely and adequate reporting measures as well as escalation channels to be key components of the control process and management of risk.

The Risk team provide regular updates to the Board/senior management on the adequacy and effectiveness of the Risk Management Process indicating, where applicable, actual or anticipated deficiencies and the remedial measures.

In addition, all issues and events impacting any Group entity or the funds are logged in SHIELD, by the relevant area within the prescribed time limits.