abrdn Smaller Companies Income Trust plc

Hunting smaller companies for a stronger income

Performance Data and Analytics to 31 May 2022

Investment objective

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.

Benchmark

Numis Smaller Companies ex Investment Trusts Index (from 1 January 2020). FTSE SmallCap (ex Investment Companies) Index total return (up to 31 December 2019).

Cumulative performance (%)

	as at 31/05/22	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	277.0p	(7.0)	(6.9)	(21.5)	(19.9)	5.4	33.2
NAV[A]	340.2p	(3.1)	(5.4)	(17.9)	(14.0)	10.5	25.9
Benchmark		(0.1)	(1.5)	(6.9)	(9.5)	12.1	9.3

Discrete performance (%)

	31/05/22	31/05/21	31/05/20	31/05/19	31/05/18
Share Price	(19.9)	41.1	(6.8)	0.3	26.1
NAV[A]	(14.0)	34.9	(4.8)	(1.0)	15.1
Benchmark	(9.5)	54.1	(19.6)	(7.7)	5.6

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis.
Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value.
Source: Aberdeen Asset Managers Limited, Lipper and Morningstar.
Past performance is not a guide to future results.

Morningstar Sustainability Rating™

Morningstar Rating™

★★★

[B] **Morningstar Rating™ for Funds**
Morningstar rates funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds.

Ten largest equity holdings (%)

Telecom Plus	4.3
Morgan Sindall	3.7
Sirius Real Estate	3.3
Safestore Holdings	3.2
Softcat	2.9
DiscoverIE	2.8
Tatton Asset Management	2.8
Hollywood Bowl	2.6
Games Workshop	2.6
Assura	2.6
Total	**30.8**

Fixed income, Convertibles and Preference share holdings (%)

NGG Finance 5.625%	0.5
Barclays Bank 9%	0.4
HSBC 6.5%	0.4
Heathrow Funding 5.225%	0.4
SSE 3.625%	0.4
Northumbrian Water 1.625%	0.3
Anglian Water Services Finance 4.5%	0.3
Informa 3.125%	0.2
NatWest Group 2.105%	0.2
Total	**3.1**

Total number of investments 56

[A] Including current year revenue.

All sources (unless indicated): abrdn: 31 May 2022.

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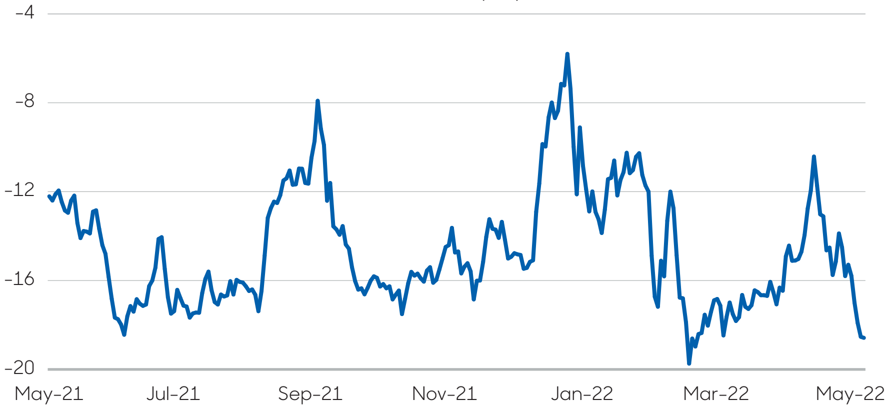
1 Year Premium/Discount Chart (%)



Fund managers' report

Market review

UK stocks fell sharply in the first week of May, following the Bank of England's (BoE) warning on the risk of recession in 2023, with BoE Governor Andrew Bailey stating that the central bank expects a "very sharp slowdown in activity". High inflation prints, ongoing supply-chain issues amid China's strict 'zero-Covid' policy and a second interest-rate hike from the US Federal Reserve pressured equities more generally, with investors fearful that central bank action could push the US and other economies into recession. However, UK stocks rallied towards the end of the month to post a marginal gain, as investors reacted positively to strong earnings from the retail sector. Chancellor Rishi Sunak also announced a £15 billion support package to help households alleviate the cost-of-living crisis. All UK households will receive a £400 energy grant, while low-income households will receive a £650 payment.

The FTSE All-Share Index generated a total return of 0.7%, but the picture is more mixed below this headline figure. Most of the positive performance came from the FTSE 100 Index, which returned 1.1%, as energy and commodity-related companies continued to outperform, whereas the FTSE 250 and FTSE Small-Cap indices fell by 1.1% and -2.1%, respectively.

The BoE hiked interest rates from 0.75% to 1% in May, its highest level for over a decade. The UK's consumer price index surged to 9% in April, a 40-year high, driven by rising electricity and fuel costs. Meanwhile, according to a leading indicator, consumer confidence fell to its lowest level since 2008. Employment data was strong with Britain's jobless rate hitting a 48-year low in the first quarter of 2022.

Performance

The Trust delivered a total return of -3.1% (gross of fees), compared with a total return of -0.13% for the Numis Smaller Companies (ex-investment trusts) Index.

Fund managers' report continues overleaf

[C] Expressed as a percentage of average daily net assets for the year ended 31 December 2021. The Ongoing Charges Figure (OCF) is the overall cost shown as a percentage of the value of the assets of the Company. It is made up of the Annual Management Fee and other charges. It does not include any costs associated with buying shares in the Company or the cost of buying and selling stocks within the Company. The OCF can help you compare the annual operating expenses of different Companies.
[D] 0.75% per annum of the value of the Company's net assets.
[E] Calculated using the Company's historic net dividends and month end share price.
[F] The 'Active Share' percentage is a measure used to describe what proportion of the Company's holdings differ from the benchmark index holdings.
[G] Expressed as a percentage of total equities held divided by shareholders' funds.
[H] Net gearing is defined as a percentage, with net debt (total debt less cash/cash equivalents) divided by shareholders' funds.

Sector allocation (%)

Industrials	28.0
Financials	21.6
Consumer Discretionary	15.4
Real Estate	11.2
Technology	8.8
Consumer Staples	7.1
Telecommunications	4.6
Basic Materials	3.3
Total	**100.0**

Key information Calendar

Year end	31 December
Accounts published	March
Annual General Meeting	April
Dividend paid	January, April, July, October
Established	1992
Fund managers	Abby Glennie Amanda Yeaman
Ongoing charges[C]	1.20%
Annual management fee[D]	0.75% of net assets
Premium/(Discount)	(18.6)%
Yield[E]	3.3%
Active share[F]	93.7%

Gearing (%)

Equities[G]	1.7
Total net[H]	5.2

AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

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Fund managers' report – continued

One of the more defensive holdings in the Trust, Assura, was a positive contributor on the back of a positive investor update. The company has captured the benefits of inflationary tailwinds and the contributions from developments and acquisitions, which has led to higher rents, growth in its portfolio valuation and earnings upgrades. Our holding in investment platform AJ Bell also performed well. The company indicated that its first-half result was slightly weaker than expected because of the effect on margins from the investment in the platform and new offerings, but it upgraded its margin guidance for FY22/23 due to its positive skew to rising interest rates. Building-products manufacturer Forterra also provided an upbeat trading update which led to high-single-digit upgrades to consensus estimates of 7%. Demand is still strong, and its order books are full, the company commented that it is selling all the bricks it is producing. Further, price increases were implemented in April, with them now sitting roughly 30% higher than last year.

The main detractors were recruiter Robert Walters, self-storage provider Safestore and Mortgage Advice Bureau. In the case of all three companies, this was despite a lack of stock-specific news and delivering a positive message in their most recent market updates.

Activity

There was no activity of note during the month.

Outlook

Recent months have continued to be tricky for equities, especially for growth stocks. However, the most pleasing aspect for us is seeing the continued earnings resilience from the companies in which we are invested. Indeed, we have seen a healthy level of earnings upgrades across our holdings. While this is perhaps not currently being rewarded in the way we think it should be, we believe this will normalise. We are seeing a sharp turn in net upgrades versus downgrades across the market and are pleased to report that the portfolio's holdings are on the right side of this metric.

We are heading towards a tougher economic environment and continued geopolitical instability. In a slower economic environment, or a recession, investors tend to look to quality as a safe haven. This has not been the case so far this year, with investors dismissing quality as a factor. But we have started to see that turn in the last month. With interest rates rising, balance-sheet strength will become increasingly important, and investors will look to well-managed companies, with visible and resilient revenue streams, that can continue to invest in their businesses through tougher periods. With inflationary pressures continuing, having a strong market position which facilitates pricing power is going to be key. Equally important is a strong culture, given the challenges in attracting good employees.

Timing the market, especially in the small and mid-cap space, can be difficult. While many data points show we are at extremes in terms of market moves, both in large versus small caps as well as in growth versus value, there is still a risk that markets will overshoot to the downside. There may need to be a turn in macroeconomic indicators, such as inflation levels or the direction of interest rates, before we see greater levels of risk tolerance. In our view, these are not likely to be near-term developments. Therefore, it is important to remain focused on the long term.

The risks outlined overleaf relating to gearing and smaller companies are particularly relevant to this trust but should be read in conjunction with all warnings and comments given.
Important information overleaf

Assets/Debt

	£'000	%
Equities	76,532	101.7
Fixed Income	2,531	3.4
Total investments	79,063	105.1
Cash & cash equivalents	3,120	4.2
Other net assets	37	0.0
Debt	(6,996)	(9.3)
Net assets	**75,224**	**100.0**

Capital structure

Ordinary shares	22,109,765

Allocation of management fees and finance costs

Capital	70%
Revenue	30%

Trading details

Reuters/Epic/ Bloomberg code	ASCI
ISIN code	GB0008063728
Sedol code	0806372
Stockbrokers	WINS Investment Trusts
Market makers	CFEP, INV, JPMS, WINS

Factsheet

Receive the factsheet by email as soon as it is available by registering at www.invtrusts.co.uk/#signup www.abrdnsmallercompaniesincome.co.uk

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Important information

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- The Company invests in smaller companies which are likely to carry a higher degree of risk than larger companies.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- With funds investing in bonds there is a risk that interest rate fluctuations could affect the capital value of investments. Where long term interest rates rise, the capital value of shares is likely to fall, and vice versa. In addition to the interest rate risk, bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations (i.e. pay the interest on a bond and return the capital on the redemption date). The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.
- Specialist funds which invest in small markets or sectors of industry are likely to be more volatile than more diversified trusts.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

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