

Standard Life UK Smaller Companies Trust plc

Financial Calendar

24 August 2018	Announcement of results for year ended 30 June 2018
25 October 2018	Annual General Meeting
31 October 2018	Payment of final dividend for 2017 / 2018
February 2019	Announcement of Half-Yearly Financial Report for six months ending 31 December 2018
April 2019	Payment of interim dividend for 2018 / 2019

Visit our website at
www.standardlifeuksmallercompaniestrust.co.uk

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Strategic Report

Key Financial Highlights

Total Return for periods to 30 June 2018

NAV Total Return	1 year +24.8%	3 years +71.4%	5 years +111.1%	10 years +361.1%
Share Price Total Return	 +17.7%	 +75.2%	 +93.1%	 +393.0%

Capital Return for the year to 30 June 2018

NAV per Share	Share Price	Discount	Net Gearing
552.93p +21.1%	500.00p +16.0%	9.6%	3.6%
(2017: 456.60p) ⁽¹⁾	(2017: 431.00p)	(2017: 5.6%)	(2017: 1.7%)

As at 30 June 2018

Source: Thomson Reuters Datastream

(1) The comparable NAV per share of 456.60p as at 30 June 2017 is the Diluted NAV per share as at that date.

Strategic Report

Key Financial Highlights

As at 30 June 2018

Market Cap
£369.2
million
+25.5%

(2017: £294.2m)

Net Assets
£408.3
million
+26.0%

(2017: £324.0m)

Gross Assets
£433.1
million
+28.5%

(2017: £337.1m)

For the year ended 30 June 2018

Revenue
EPS
7.24p
12.8%

(2017: 6.42p)

DPS
7.00p
4.5%

(2017: 6.70p)

Ongoing
Charges
1.04%

(2017: 1.08%)

Strategic Report

Chairman's Statement



Allister Langlands

I am pleased to report another year of strong growth with the Company's Net Asset Value total return of 24.8% following last year's return of 35.0%.

We have also recently announced our proposed merger with Dunedin Smaller Companies Investment Trust PLC which is expected to increase the assets of the Company to over £550 million. The merger will benefit the Company's shareholders through increased scale, a reduction in the ongoing charges ratio and increased liquidity.

Performance

For the year ended 30 June 2018, the Company's diluted net asset value (NAV) total return, calculated on the basis that all dividends received are reinvested in additional shares, was 24.8%. The Company's performance compared with the total return of 8.5% of the Company's reference index. The share price total return, calculated on the same basis, was 17.7%. When coupled with the return delivered in 2017, the NAV total return and the share price total return are both over 60% since the year end immediately following the Brexit Referendum. This is testament to the strength of the investment process employed by the Investment Manager, Harry Nimmo and his team. The Investment Manager's Report on pages 17 to 20 provides further information on stock performance and portfolio activity during the year, as well as the Investment Manager's outlook for UK smaller companies. The Board agreed with the Investment Manager's view, that an emphasis on risk aversion, resilience, growth and momentum still feels right for the future and also that patient investors will be rewarded in the longer term.

Earnings and Dividend

The basic revenue return per share for the year ended 30 June 2018 was 7.24p (2017: 6.42p). The Board is recommending an increased final dividend of 5.50p (2017: 5.20p). If approved, the final dividend, together with the interim dividend of 1.50p paid in April 2018, will give a total dividend for the year of 7.00p and will represent an increase of 4.5% on last year's dividend.

Subject to shareholder approval at the Annual General Meeting to be held on Thursday, 25 October 2018, the final dividend will be paid on 31 October 2018 to shareholders on the register on 5 October 2018 with an associated ex-dividend date of 4 October 2018.

Dividend History Chart



Key Performance Indicators (KPIs)

During the year we reviewed and revised the KPIs used to monitor the performance of the Company and we concluded that the four measures described below give the Board and shareholders a more transparent means of assessing the performance of the portfolio. The KPIs by which performance of the Manager will be measured, in future, are as follows:

- Net asset value total return relative to the Company's reference index, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index, and also relative to the performance of its peer group of investment trusts.

NAV total return to 30 June 2018	1 year	3 years	5 years
Standard Life UK Smaller Companies Trust	24.8%	71.4%	111.1%
Reference Index	8.5%	30.8%	73.6%
Peer Group Average Performance	15.5%	42.6%	103.0%

Source: Aberdeen Standard Investments & Thomson Reuters Datastream. Performance to 30 June 2018

Strategic Report

Chairman's Statement

- ▶ Share price total return relative to the Company's reference index and to the performance of its peer group of investment trusts.

Share price total return to 30 June 2018	1 year	3 years	5 years
Standard Life UK Smaller Companies Trust	17.7%	75.2%	93.1%
Reference Index	8.5%	30.8%	73.6%
Peer Group Average Performance	20.9%	45.9%	114.6%

Source: Aberdeen Standard Investments & Thomson Reuters Datastream. Performance to 30 June 2018

- ▶ Discount or premium of the ordinary share price to the net asset value per share of the Company is compared to the discount of the peer group and also against the threshold of the Trust's discount control mechanism on a rolling 12 month basis.

Year to 30 June 2018	Current (discount)/premium	Narrowest (discount)/Widest premium	Widest (discount)/Narrowest premium	Average
Standard Life UK Smaller Companies Trust	(9.6%)	1.4%	(9.6%)	(3.9%)
Peer Group Average	(8.0%)	(7.8%)	(13.2%)	(10.8%)

Source: Aberdeen Standard Investments & Thomson Reuters Datastream. Year to 30 June 2018

- ▶ The on-going charges ratio (OCR) is monitored against prior years and compared to other similar sized trusts in our peer group.

Year	Reported OCR (%)
2014	1.19
2015	1.19
2016	1.13
2017	1.08
2018	1.04

The Board assesses the performance of the Company over a variety of timeframes, but has particular focus on the long term, which the Board considers to be 5 years. A 10 year record of the KPIs of the Company is also included on page 25.

The Board is pleased to report that the portfolio has delivered returns in excess of the reference index over all timeframes. The on-going charges ratio (OCR) has fallen a further four basis points from 1.08% to 1.04%. The OCR has reduced for each of the last 3 years. Compared to trusts of a similar size, it is broadly in line. The Board expects that the OCR will be lower again in 2019, even assuming no change in the value of the current portfolio. The increase in the asset base resulting from the proposed merger with Dunedin Smaller Companies Investment Trust PLC ("Dunedin Smaller") coupled with the reduction in the management fee will mean that the fixed costs of managing the Company will be spread across a greater pool of assets, lowering the unit costs for shareholders.

A review of the Company's performance, market background, investment activity and portfolio strategy during the year under review, as well as the Manager's investment outlook, are provided in the Investment Manager's Report which can be found on pages 17 to 20.

Discount Control

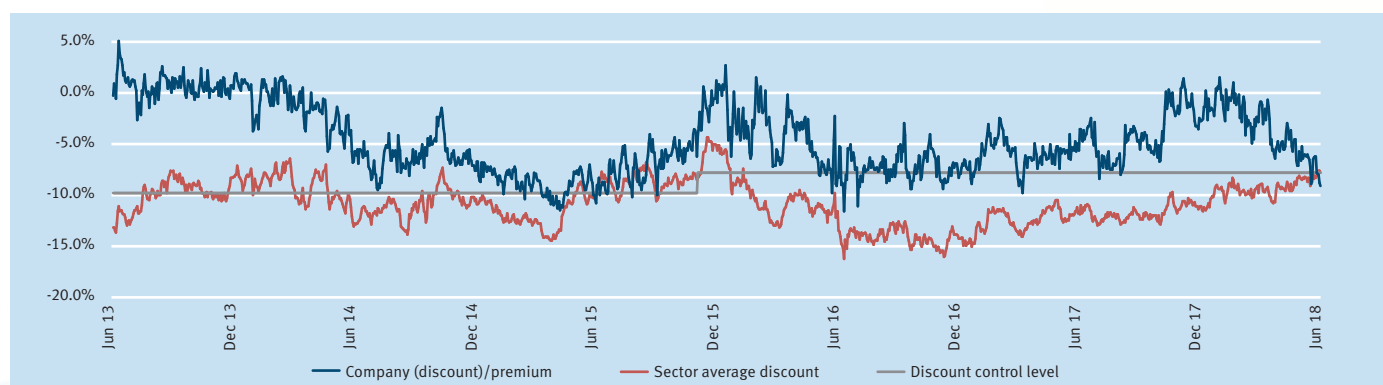
The Board aims to ensure that the discount to the diluted cum-income net asset value does not exceed 8% in normal market conditions. The timing and scale of share buy-backs will be at the discretion of the Board. Full details of the Board's Discount Control Policy can be found on page 16.

As the chart on page 8 shows, the Board has been largely successful in this regard, as there are only a few isolated occasions during which the price has traded outside the prescribed band. The Company's shares have traded at an average discount of 3.9% over the year ended 30 June 2018. This compares with the average peer group discount of 10.8% for the same period.

In the last quarter of the financial year the discount widened for two reasons, largely unreflective of the otherwise strong performance of the portfolio. Firstly, in April 2018, the issuance of additional shares following the expiry of the Convertible Unsecured Loan Stock (CULS) in March 2018 caused some shareholders to adjust their holdings in the Trust and secondly, we also saw pressure on the share price following the announcement of the merger with Dunedin Smaller which meant that the discount at the year end was 9.6%. Since the year end, the Board has stepped in and purchased 210,574 shares in the market, enhancing the NAV for continuing shareholders, demonstrating the Board's determination to manage the discount and helping to reduce the degree of volatility in the share price and the discount.

Strategic Report

Chairman's Statement



Source: Aberdeen Standard Investments & Thomson Reuters Datastream. Performance to 30 June 2018

Gearing

The Board has given the Investment Manager discretion to vary the level of gearing between a net cash position of 5% and net gearing of 25% of net assets. At the start of the year, gearing was provided by the £13.3m of the remaining CULS. £2.2m of CULS were converted in September 2017 into 927,892 Ordinary Shares and the remaining £11.1m was converted on the final conversion date of 29 March 2018. As a consequence, a further 4,658,405 Ordinary Shares were issued. All conversions took place at a rate of 237.2542p of CULS for one Ordinary Share.

As the CULS were due to expire, the Board reviewed alternative funding options for the Company and, on 1 November 2017, the Company entered into a £45,000,000 unsecured loan agreement with Royal Bank of Scotland International Ltd. The facilities consist of a 5 year fixed-rate term loan of £25,000,000 at a rate of 2.349% and a 5 year revolving credit facility of £20,000,000. At 30 June 2018, the £25,000,000 fixed-rate term loan was drawn which, net of cash holdings, equated to a level of gearing of 3.6%.

Reference Index

During the year, the Board changed the benchmark against which it assesses portfolio performance. On 1 January 2018, the reference index became the Numis Smaller Companies plus AIM (excluding Investment Companies) Index (the plus AIM index). During 2017, the Board had considered the appropriateness of the Numis Smaller Companies (excluding Investment Companies) Index as the reference index of the Company. The last few years have seen the quality of investment opportunities available on the Alternative Investment Market (AIM) improve and, as a consequence, the proportion of the portfolio that has been invested in stocks that are quoted on AIM has gradually increased to over 40%. The Manager believes that the best way to deliver positive absolute returns over the long term is to continue to have significant exposure to AIM quoted companies. The Board recognises the contribution that the investments which are not constituents of the existing reference index have made to absolute performance. By changing the reference index to include AIM stocks, the index is a better guide to shareholders as to what sort of companies may be included in the portfolio

and the performance of the portfolio can more easily be assessed against the index which includes AIM companies. The comparative recent performance of the two indices is shown below:

Total Return 12 months to	Numis Smaller Companies (ex Investment Companies) Index	
	Inc AIM	Ex AIM
30 June 2018	8.8%	7.6%
30 June 2017	31.8%	29.1%
30 June 2016	-6.3%	-6.6%
30 June 2015	5.4%	10.4%
30 June 2014	19.2%	20.3%

Source: Thomson Reuters Datastream

Proposed Merger with Dunedin Smaller Companies Investment Trust PLC

On 21 June 2018, the Boards of your Company and Dunedin Smaller announced that they propose to merge the two companies. This will be achieved by way of a scheme of reconstruction under section 110 of the Insolvency Act 1986, resulting in the voluntary liquidation of Dunedin Smaller and a roll-over of its assets into the Company.

The merger with Dunedin Smaller is expected to increase the assets of the Company to over £550 million which should benefit the Company's shareholders, through increased scale, a reduction in the ongoing charges ratio and increased liquidity. This would be the second merger that the Company has undertaken in the last 10 years and demonstrates the Board's willingness to grow the Company by a combination of performance and carefully considered corporate activity.

A Circular containing details of the proposal, will be issued to shareholders shortly and a General Meeting will be held on 3 October 2018. The merger is conditional upon the support of both sets of shareholders.

Strategic Report

Chairman's Statement

Management fee

As part of the discussions with the Manager over the merger, and in light of the increased size of the Company, the Board has negotiated a change in the fee structure. With effect from 1 July 2018 an additional tier to the management fee has been introduced. In addition, the basis upon which the fee is calculated has also been changed. In future years, the fee will be calculated on Net Assets, not Total Assets. The fee will be 0.85% per annum applying to the first £250m of the Company's Net Assets, 0.65% per annum applying above this £250m threshold until £550m and a new reduced fee of 0.55% charged on Net Assets above this figure.

Board Succession

As previously announced, Carol Ferguson has intimated her intention to step down from the Board of the Company following the conclusion of the AGM in October 2018. Carol has been on the Board since the merger with Gartmore Smaller Companies Trust in 2008. On behalf of the Board, I would like to thank Carol for her outstanding advice and guidance over the last ten years.

As a consequence of Carol's planned retirement, the Board undertook a search to find an additional Non-Executive Director. On 15 June 2018, the Board announced that Ashton Bradbury would join the Board on 2 July 2018. Ashton was previously a fund manager with Old Mutual Global Investors Limited where he established its Small and Mid-Cap equities team.

Following the retirement of Carol Ferguson, Tim Scholefield will assume the role of the Company's Senior Independent Director.

As part of the terms of the merger, it is expected that Alexa Henderson, a Non-Executive Director of Dunedin Smaller will join the Board of the Company.

Issue of Shares

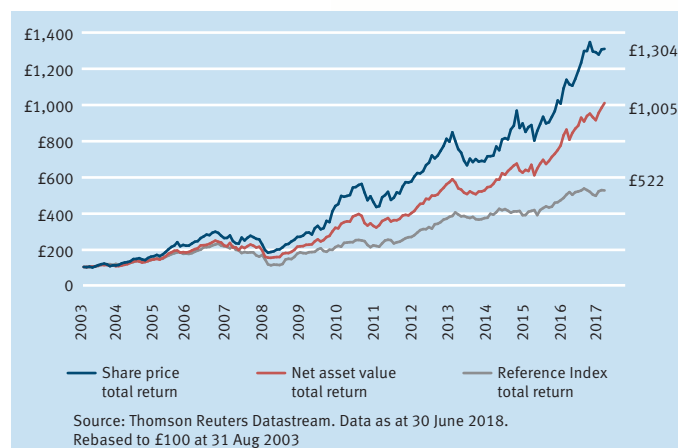
The only issuance of shares during the year was as a result of CULS conversions. 5,586,297 Ordinary Shares were issued, of which 927,892 were issued from treasury, increasing the number of shares in issue by 8.2%.

Investment Manager

The Board believes that the appointment of Aberdeen Standard Investments (ASI) as Investment Manager continues to be in the long-term interests of shareholders. This conclusion has been reached on the basis of the strength of the long-term returns that the Manager has delivered for the Company and being confident that the process by which these returns have been generated remains appropriate for the objectives of the Company and that this process continues to be applied by the Manager. Since the Investment Manager was appointed Manager to the Company on 1 September 2003, the Company has delivered an annualised diluted net asset value total return of 16.8% and has outperformed the Company's reference index by almost 4.0% per annum.

The Board monitored the impact of the merger of Standard Life plc and Aberdeen Asset Management PLC which was formalised in August 2017. The main concern for the Board was the potential impact that the merger might have on the investment

process and team employed to manage the portfolio. Over the last 12 months, it has been confirmed that ASI will continue to support and promote the investment process centred on the Focus on Change philosophy and the use of the Matrix, as detailed on pages 11 and 12, and that Harry Nimmo and his team will continue to manage the Company's portfolio.



AGM and Manager's Presentation

The Annual General Meeting of the Company will be held at the offices of the Investment Manager, Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London EC4M 9HH on Thursday, 25 October 2018. The meeting will start at 12 noon and will include a presentation from the Investment Manager. The Notice of Annual General Meeting can be found on pages 73 to 77 of this Annual Report.

Outlook

Last year I wrote of three events that had been largely unforeseen and which would be expected to have a significant bearing on the macro-economic landscape. Twelve months later, two of those issues, the Brexit negotiations and the decisions of Donald Trump, continue to influence market movements and the geopolitical backdrop. The remaining challenge identified last year, that of the UK being run by a minority government, does seem to have been less problematic than we had anticipated, but the evolving Brexit negotiations still have the ability to test that.

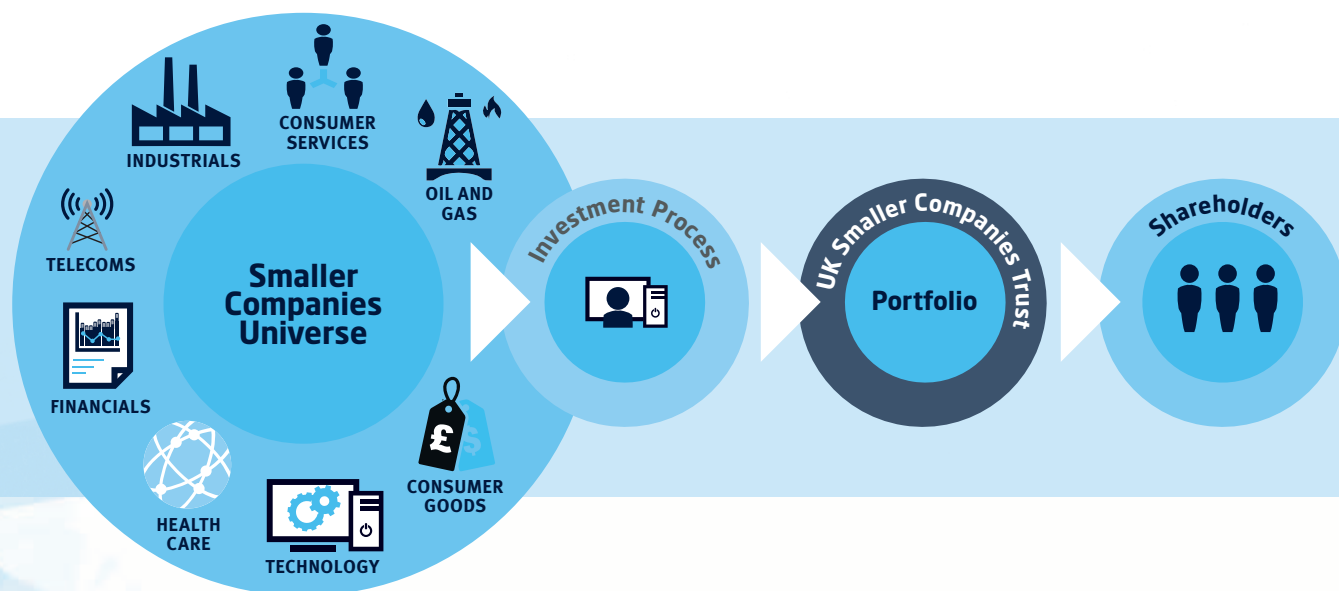
Against this backdrop, which is not benign from an investors' perspective, markets have coped and, more particularly, the companies in which your Company invests are still identifying and developing new opportunities. The portfolio continues to deliver a combination of capital growth supported by healthy dividend growth and we expect this to be the case over the longer term. The emphasis on risk aversion, quality and resilience, growth and momentum remains intact.

Allister Langlands
Chairman

23 August 2018

Strategic Report

Our Strategy



Standard Life UK Smaller Companies Trust plc offers an actively managed portfolio of equity shares of smaller and mid-sized companies listed in the UK. Over the long term, smaller company returns have outstripped those of their large-cap peers.

Strategic Report

Objective

To achieve long-term capital growth by investment in UK-quoted smaller companies.

Investment policy

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK-quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing Standard Life Investments (Corporate Funds) Limited's ("the Investment Manager") highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio).

Within the Articles of Association, the maximum level of gearing is 100% of net assets. The Directors have set parameters of between 5% net cash and 25% net gearing (at the time of drawdown) for the level of gearing that can be employed in normal market conditions. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process is research intensive and is driven by the Investment Manager's distinctive "Focus on Change" which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible, but disciplined, process ensures that the Investment Manager has the opportunity to perform in different market conditions.

The Directors have set additional guidelines in order to reduce the risk borne by the portfolio:

- Companies with a market capitalisation of below £50m should not represent more than 5% of total assets.
- Companies involved in "Blue Sky" products or services should not represent more than 5% of total assets.
- No more than 50% of the portfolio can be invested in companies that are constituents of the FTSE AIM Index.

Strategic Report

Investment Process

Investment Manager

The Company's Investment Manager is Standard Life Investments (Corporate Funds) Limited (the AIFM) which is a wholly owned subsidiary of Standard Life plc, which merged with Aberdeen Asset Management PLC in August 2017 to form Standard Life Aberdeen plc (SLA). The investment management to the Company is provided by Aberdeen Standard Investments (ASI), the investment division of SLA. Harry Nimmo has been the Portfolio Manager since 2003.

Investment philosophy and process

The Board has identified that ASI has a proven and repeatable investment process, which has delivered returns to shareholders over the last 14 years. The investment process adheres to ASI's Focus on Change philosophy which assumes that asset prices are driven by fundamentals (all the necessary information used to value the asset). Its premise is also that markets are inefficient at pricing changes in these fundamentals. The aim is therefore to identify, understand and exploit the key drivers and the dynamics behind them.

The Matrix

In managing the investment portfolio of the Company, the Focus on Change 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 on 13 separate proven indicators of financial performance. 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 company management.

Strategic Report

Investment Process

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.

1. Sustainable growth

Companies in the portfolio will often produce niche products or services where demand is forecast to rise as these characteristics are the most predictive of future earnings and dividend growth.

2. Quality

The strength of each company's relationships with its customers or clients, the existence and importance of long-term contracts and the degree to which the company has any element of pricing power is important as it allows the company to pass on any cost increases and thereby maintain margins. The Manager will typically avoid companies with high or unsustainable levels of debt.

3. Buy for the long term

Identify the great companies of tomorrow and then hold them for the long term. This reduces the financial drag of high trading volumes.

4. Concentrate the effort

The Matrix helps identify the likely 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.

5. Management longevity

Founders retaining positions of authority within the companies after flotation, along with longevity of tenure by CEOs are a positive signal. Three of the top 10 holdings in the portfolio are still run by the company's founder. The significance of this is that founders tend to be much more attuned to the benefits of long-term investing than their successors, probably because of the scale of personal involvement.

6. Valuation is secondary

Invest in companies which demonstrate positive earnings momentum as they believe that it is a reliable predictor of future performance.

Strategic Report

Principal Risks and Uncertainties

The Board reviews regularly the principal risks and uncertainties facing the Company which the Board and the Manager have identified and the Board sets out delegated controls designed to manage those risks and uncertainties. Key risks within investment strategy, including inappropriate stock selection and gearing, are managed by the Board through a defined investment policy, with guidelines and restrictions, and by the process of oversight at each Board meeting. Operational disruption, accounting and legal risks are also covered at least annually and regulatory compliance is reviewed at each Board meeting.

The Directors have adopted a robust framework of internal controls which is designed to monitor the principal risks and uncertainties facing the Company and provide a monitoring system to enable the Directors to mitigate these risks as far as possible. A description of the Directors' system of internal controls is set out in the Statement of Corporate Governance on pages 36 to 41.

The major risks associated with the Company are:

- ▶ **Investment and market risk:** The Company is exposed to the effect of variations in share prices due to the nature of its business. A fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds.

Regular reports are received from the Manager on stock selection, sector allocation, gearing and market outlook. Investment performance is reviewed in detail and discussed with the Manager at each Board meeting.

- ▶ **Capital structure and gearing risk:** The Company's capital structure, as at 30 June 2018, consisted of equity share capital comprising 73,837,630 Ordinary Shares. The Company also held 2,447,950 Ordinary Shares in treasury.

The effect of gearing should be beneficial in rising markets but could adversely affect returns to shareholders in falling markets. The Manager is able to increase or decrease the Company's level of net gearing by holding a lower or higher cash balance subject to the Company's investment policy which requires that gearing should remain between 5% net cash and 25% net gearing at the time of drawdown.

- ▶ **Revenue and dividend risk:** In view of the Company's investment objective, which is to generate long-term capital growth by investment in UK-quoted smaller

companies, the Manager aims to strike a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay a dividend commensurate with the year's income. The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.

- ▶ **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Section 1158 of the Corporation Tax Act 2010 could result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including but not limited to, the Companies Act 2006, the FCA Listing Rules, the FCA Disclosure, Guidance and Transparency Rules, the Market Abuse Regulation, the Foreign Account Tax Compliance Act, the Common Reporting Standard, the Packaged Retail and Insurance based Investment Products (PRIIPs) Regulation and the Second Markets in Financial Investments Directive (MiFID II), could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers to the Company could also lead to reputational damage or loss. The Company's control environment, including those controls exercised by third party providers, are reviewed by the Board and the Manager on a regular basis to ensure ongoing compliance.

There is also a further regulatory risk in ensuring compliance with the Alternative Investment Fund Managers Directive (AIFMD). In accordance with the requirements of the AIFMD, the Company appointed Standard Life Investments (Corporate Funds) Limited as its Alternative Investment Fund Manager (AIFM) and BNP Paribas Securities Services as its Depositary. The Board receives regular reporting from the AIFM and the Depositary to ensure both are meeting their regulatory responsibilities in relation to the Company.

The Company must also comply with the General Data Protection Regulation (GDPR) which came into force on 25 May 2018, replacing the Data Protection Act 1998. This regulation enforces the principle of 'privacy by design' and enshrines new rights for individuals, including the right to be forgotten and to data portability. The Manager has worked with third parties that process shareholders' personal data to ensure that their rights under the new regulation are protected.

Strategic Report

Principal Risks and Uncertainties

- ▶ **Supplier risk:** In common with most investment trusts, the Company has no employees. The Company therefore relies upon services provided by third parties, including the Manager in particular, to whom responsibility for the management of the Company has been delegated under an Investment Management Agreement, further details of which may be found on page 29.

The merger of Standard Life plc and Aberdeen Asset Management PLC created additional supplier risk for the Company due to the potential for change in the way the Manager provides its services to the Company. The Investment Manager has confirmed that the investment process and the investment team that has served the Trust will continue to be employed in the management of the portfolio of the Company. The Board will continue to keep under close review any potential implications for the Company arising from the merger as the integration progresses.

- ▶ **Geopolitical risk:** The Company is exposed to the effects of geopolitical instability or change, as this could have an adverse effect on stock markets. The Board and the Manager review regularly and discuss current geopolitical issues and seek appropriate expert advice, when necessary, in relation to managing any impacts on the Company.

The Board is mindful of the uncertainty following the UK's referendum decision to leave the EU and, along with the Manager, is closely monitoring any impact on the Company's share price, discount level and underlying investment performance.

Strategic Report

Management Policies

Reference Index

As announced in the Half Yearly Report to 31 December 2017, from 1 January 2018, the Board uses the Numis Smaller Companies plus AIM (excluding Investment Companies) Index (the plus AIM Index) as its reference index. Prior to that date, the reference index was the Numis Smaller Companies (excluding Investment Companies) Index (the Numis Index). The Board has approved guidelines that permit the Manager to hold up to 50% of the value of the portfolio in companies listed on FTSE AIM (AIM).

The qualification criteria for being listed on AIM are less stringent than for a full listing on the London Stock Exchange. As a consequence, investors generally need to undertake higher degrees of due diligence, but particularly over the last three years the quality of the companies listing on AIM has improved and at the same time the returns from stocks on AIM have outstripped that of the Numis Index over 3 years, and are comfortably ahead of the returns from the large cap indices.

The investment process is centred on stock selection, not asset allocation. The weighting of stocks and sectors that make up the portfolio can differ significantly from the weightings of the Numis Index. For example, in the last couple of years, the portfolio has had no direct exposure to the Oil & Gas sector, despite the sector representing around 8% of the reference index in 2016. As a consequence, the returns generated by the portfolio may differ significantly from those generated by the reference index. However, the Board believe that the Manager's process of extended due diligence coupled with the quantitative analysis produced by the Matrix system will deliver returns in excess of those generated by the reference index over the longer term.

	NAV Total Return	Total Return				
	Std Life UK Smaller Companies	Numis Index plus AIM (ex IC)	Numis Index (ex IC)	FTSE AIM	FTSE All-Share	FTSE 100
1 year	24.8%	8.8%	7.6%	13.5%	9.0%	8.7%
2 years	64.4%	43.4%	39.0%	57.3%	28.8%	27.1%
3 years	71.4%	34.3%	29.8%	49.5%	31.6%	32.0%
5 years	111.1%	68.9%	72.3%	67.0%	52.8%	48.6%
10 years	361.1%	147.9%	228.0%	26.4%	111.2%	98.2%

Source: Thomson Reuters Datastream to 30 June 2018.

Discount Control Policy

The Board aims to maintain a discount level of less than 8% to the cum-income net asset value under normal market conditions. In pursuit of this objective, the Board closely monitors the level of the discount and buys back shares in the market when it believes it is in the best interests of shareholders as a whole to do so. At each AGM, the Board seeks shareholder approval to buy back up to 14.99% of the Company's share capital.

The Company has a tender offer mechanism in place and the Board intends to continue to seek shareholder approval to enable it to carry out tender offers on a discretionary basis in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level, although it expects that buy-backs should be the primary mechanism for managing the discount.

Employee, Environmental and Human Rights Policy

As a managed investment trust, the Company has no direct employee or environmental responsibilities, nor is it responsible for the emission of greenhouse gases. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly managed and invested. The Company has no employees and, accordingly, has no requirement to report separately on employment matters. The management of the portfolio is undertaken by the Manager. The Manager engages with the Company's underlying investee companies in relation to their corporate governance practices and in developing their policies on social, community and environmental matters and further information may be found in the Statement of Corporate Governance. The Manager's specific policies are outlined in their Governance and Stewardship Guidelines, which may be found on the Manager's website at https://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/principles_and_policies.html. In light of the nature of the Company's business, there are no relevant human rights issues and, therefore, the Company does not have a human rights policy.

Strategic Report

Investment Manager's Report



Harry Nimmo
Portfolio Manager

The net asset value total return of the Trust in the year to 30 June 2018 was 24.8%, while the share price total return was 17.7%. This compares to the performance of the UK smaller companies sector as represented by the Numis Smaller Companies plus AIM (excluding Investment Companies) Index which rose 8.8%. Over the same period the FTSE100 Index of the largest UK listed companies rose by 8.7%. Standard Life Investments,

and now Aberdeen Standard Investments, has managed the Trust since 1 September 2003. The Trust's share price at that time was 47.75p and has since risen by 947% to the current period end. By comparison, our reference index was up 256% and the FTSE All-Share Index rose by 104% over the same period.

Equity markets

Optimism in world markets about economic growth in the second half of calendar year 2017 was helped by Europe finally embarking on a sustained period of recovery after many years in the doldrums since the banking crisis of 2008. This was helped by the US and Chinese economies being in good shape. The UK economy had slowed down somewhat with pockets of weakness among traditional retailers in consumer markets that involve big ticket purchases such as cars and home improvements. Housebuilders have faced more challenging times, especially in the London market. Selected leisure activities, in particular restaurants, have come under pressure with a number of chains in difficulties such as Gaucho, Jamie's Italian, Byron and Prezzo. The weather has played its part with both very cold and very hot spells in the first half of 2018.

Market progress in the year has been impacted by two political issues. There has been the tortuous Brexit negotiation and the success or otherwise of Prime Minister Theresa May in corralling the various elements within her party. The second has been the on-going protectionism emanating from President Donald Trump. With each pronouncement, a trade war seems to come a step closer.

Interest rates in the US have been on an upward trend. In the UK the picture is more complex but still, on balance, would appear to be moving in an upward direction, even after the recent rate rise, as inflation remains about 2%. Business confidence remains febrile as Brexit negotiations continue.

Oil prices have been strong, rising 40% during the period in question from \$52 to \$73, helped along by a benign world economy and production discipline within OPEC. Copper prices have

Strategic Report

Investment Manager's Report

been in quite a tight range but have come off recently partly because of Trump inspired trade uncertainty. Gold prices likewise have been in a tight band all year.

Corporate results for the period in question have been somewhat mixed with 2018 heralding a higher number of earnings downgrades from the sell side analyst community. In general the less cyclical, more growth-orientated, businesses have fared better.

Bid activity has returned in 2018 with Laird, Fenner, Virgin Money, Fidessa and ZPG being acquired at handsome premiums by mainly trade buyers.

Sector highlights include a strong showing from **Industrials** prior to Christmas and good returns from **Media** and **Software** sectors pretty much all year. On the negative side **Retailers** have generally been poor all year. The retail sector in smallcaps reads like a who's who of famous names from the high streets of yester-year such as Debenhams, Mothercare and Carpetright all in deep trouble under the onslaught of the well documented digital challenge. **Commodity** stocks strangely failed to respond fully to rising prices. **Financial and Real Estate** sectors were generally subdued in the new year.

Last year I highlighted the improvement in the quality of companies listed on the Alternative Investment Market (AIM). This trend has continued and has led to steady out-performance by growth orientated AIM stocks. The portfolio is well represented in this area.

New issues activity has seen a pick up especially in 2018 across a surprisingly wide range of sectors. This encompasses law firms (Knights), guarantor loans companies (Amigo), Funds platforms (Integrafin/Transact), computer game software (Sumo and Codemasters) and even a retailer (The Works).

Performance

The Trust has steadily out-performed throughout the year in question with a particularly strong post-Christmas period. It is also gratifying to see out-performance particularly in periods of market weakness. This underlines the resilience of our investment process. Our investment style of focusing on quality, growth and momentum driven stocks hit the spot.

Out-performance by the portfolio was driven by market focus on trading results by individual companies. This is helpful as many of our holdings are trading strongly.

Our heavy overweight positions in high quality **Software, Healthcare, Food & Drink, Support Services** and **Electronics** companies served the Trust well. Lower weightings in **Financials** and **Property** stocks were positive, as was the total lack of exposure to **Oil & Gas** and **Mining** companies. An underweight position in **Industrials** was negative prior to Christmas and positive thereafter. An overweight position in **Retailers** was negative from a sector point of view, however our stock selection was strong with good performances from **JD Sports, Joules** and **Motorpoint**.

There was no bid activity for any of the holdings in the Company during the period in question.

It is notable that three out of our five best performers were the same as last year:- **Fevertree Drinks, NMC Healthcare** and **First Derivatives**. This is vindication of our "run your winners" approach to investing.

Our five leading performers in the period have been as follows:-

Fevertree Drinks has been a top contributor to performance for three years now. The phenomenal success of the Fevertree mixer brand continues as premium spirits take hold around the world.

NMC Group. This Abu Dhabi based hospitals group has become the partner of choice for Saudi Arabia as that country strives to improve cost effective healthcare delivery.

Midwich. This leading audio-visual display unit distributor has learnt the art of under-promising and over delivering in the past year. They are currently in a performance virtuous circle as audio visual displays become increasingly ubiquitous.

First Derivatives. The Newry based "big fast" data company continues to enter new sectors such as utilities and aerospace. Their continued success with new verticals underscores the scale of their potential.

Dechra Pharmaceuticals. This animal pharmaceuticals business continues to extend its distribution reach more deeply into US & European markets. Careful "bolt-on" acquisitions of product portfolios capitalises on their distribution strength.

Other strong performers include ID verification company **GB Group, Accesso Technology**, the visitor attraction software company, **Abcam**, the antibody distributor, which was first purchased in 2007 at less than 5% of the current share price, and **XP Power**, the miniaturised electric motor specialist.

Strategic Report

Investment Manager's Report

The poorest performers were **Alfa Financial Software** and **Luceco**, the electrical components company. These two companies issued profit warnings and both holdings have since been sold. **CVS Group** had a significant price setback. Trading in Autumn 2017 was sub-par which led to a temporary but loss of confidence in the management, some of which had been recovered by the end of the period. **Medica Group**, the supplier of radiologists to the NHS, recorded lacklustre trading and has seen its share price punished. Growth at **Moneysupermarket** continues to slow, not helped by high turnover in its senior management.

Dealing and Activity

The five largest additions to the portfolio were as follows:-

Safestore Holdings operates self-storage units across the UK, with a subsidiary covering Paris representing 20% of their assets. The company is run by the irrepressible Frenchman, Frederic Vecchioli, who has transformed this business over the past five years.

Gooch & Housego is a designer and manufacturer of precision electro-optical and laser components and sub-systems used in industrial, healthcare and research applications. Their key products include laser q-switches and micro-fibre couplers. They are a world leader in these niche markets.

Alpha Financial Markets is a management consultant to the fund management industry. Growth over the next few years is likely to be substantial as fund managers respond to threats their industry faces from increased regulation, passive products, mergers and complex IT and information supply arrangements. This purchase was a new issue.

Blue Prism is a world leading process automation and configuration company. They are bringing robotics to many office functions, delivering immediate productivity gains.

The Gym Group is a leading value-for-money gym operator in the UK. This is the growth segment of fitness industry.

The other new issue purchased in the year was **Team 17**, a specialist in developing and marketing game software. The founder is Debbie Bestwick who has received an MBE for services to the gaming industry. The company added to its holding in **Kainos**, the Belfast based data

services company. The other significant addition was **Hilton Food Group**, the beef and fish packer. They recently made a highly successful earnings enhancing acquisition through the purchase of Seachill.

Our key sales were:

By far our largest sale in the year was **NMC Healthcare** yet it remains a top five holding. NMC has become a member of the FTSE100 index in the past year. Ultimately, our intention is to sell down this holding in an orderly fashion. Profits were also taken in what still remains the largest holding; **Fevertree Drinks**. It is the policy of the Company to sell down holdings when they become more than 5% of the portfolio. Very significant profits were taken in **First Derivatives** and **Dechra Pharmaceuticals** for similar reasons. **Luceco**, **Emis**, **Eckoh**, **Dominos Pizza**, **Avon Rubber** and **Safestyle** were sold because they no longer matched our holding criteria.

Sector Exposures: Our key sector exposures are all growth orientated. They include the **Software**, **Healthcare**, **Food & Drink**, **Support Services** and **Retail** sectors. The growth in healthcare and software is perhaps self-evident. Support services is a catch-all sector that covers a range of interesting growth markets which in the case of the portfolio includes fund administration **Sanne**, **RWS** (specialist language translation and intellectual property management) and **Midwich** in audio-visual displays among others. Food & drink covers smaller companies that are exposed to the growth themes of choice, provenance and premiumisation through **Fevertree**, **Cranswick**, **Hotel Chocolat** and **Hilton Food Group**. Retailers provides a contrast; there are nuggets of brilliance in what is a deeply troubled sector. The stars include clothing brands, such as **Joules** and **Ted Baker** that are becoming worldwide winners or **JD Sports** who are benefiting from the boom in "athleisure". Joules and Ted Baker are examples of the type of retailer that we believe has a future, namely those that are in control of the whole production process, and not simply selling other people's goods.

I'd also like to highlight another theme which is developing. One could call it focusing on customer satisfaction in industries where customer satisfaction is thin on the ground. Firstly **Dart Group**, the operator of the Jet2 airlines business. It is now ranked in the top ten world's best airlines according to TripAdvisor. This is showing through in their superlative trading performance. Secondly **Motorpoint** which is a mould breaker in used car sales.

Strategic Report

Investment Manager's Report

Income account

Dividend income that can be considered recurring rose by 15.0% to £6.2m, compared with £5.4m in 2017. Total income in the year was £6.8m compared to £5.7m, a rise of 18.4%. In the Outlook statement of the 30 June 2016 Manager's Report I referred to "the new wave of British smaller companies" that I expected to be "tomorrow's larger companies". I'm pleased to say that this new wave has come of age resulting in the delivery of much improved capital and dividend growth as predicted.

Outlook

In June 2016, I also referred to 19 new holdings in the sub £250m market cap space, representing this "new wave" of British smaller companies. Six of these companies are now amongst the top 20 holdings in the portfolio and they now have an average market capitalisation significantly in excess of £1 billion. This process of renewal is what smaller company investing is all about.

In the Annual Report for the year ended 30 June 2017, I commented on the Alternative Investment Market (AIM) coming of age. That process of rapid improvement continues into 2018. The AIM market is now broader and deeper than it has ever been. There are now 235 companies with a market capitalisation of over £100m that are investable by your Company. 90% of the top 50 AIM stocks are profitable. The AIM market has a market capitalisation of around £100 billion and is half as big as the Numis Smaller Companies (excluding Investment Companies) Index. Sector exposure is diversified with

the top five sectors having between 9% and 12% of the total index market value. The success of AIM continues to create wealth and jobs across the UK and beyond. It is entirely right that the reference index for this company has encompassed AIM.

The two over-arching issues going forward are Brexit and the threat of trade wars. Bad outcomes in both cases could cause mayhem far beyond the realm of British smaller companies. Investors thus continue to favour better quality, growing companies with strong business momentum. Our process starts from the bottom up where picking great companies is central to our process. We feel that it is wrong to start with a top down macro view of the future when investing in small companies. These great companies are best suited to ride out difficult economic conditions if they occur. Given that these two macro-uncertainties are likely to persist for some time I am optimistic that our process will continue to deliver out-performance in potentially troubled times.

Smaller company investing should be viewed as a long term investment and we have no doubt that patient investors will be rewarded in the longer term. Our stable process has been seasoned by fully four economic cycles. I remain very optimistic about the future of the Company in the long term.

Harry Nimmo

Aberdeen Standard Investments, Portfolio Manager

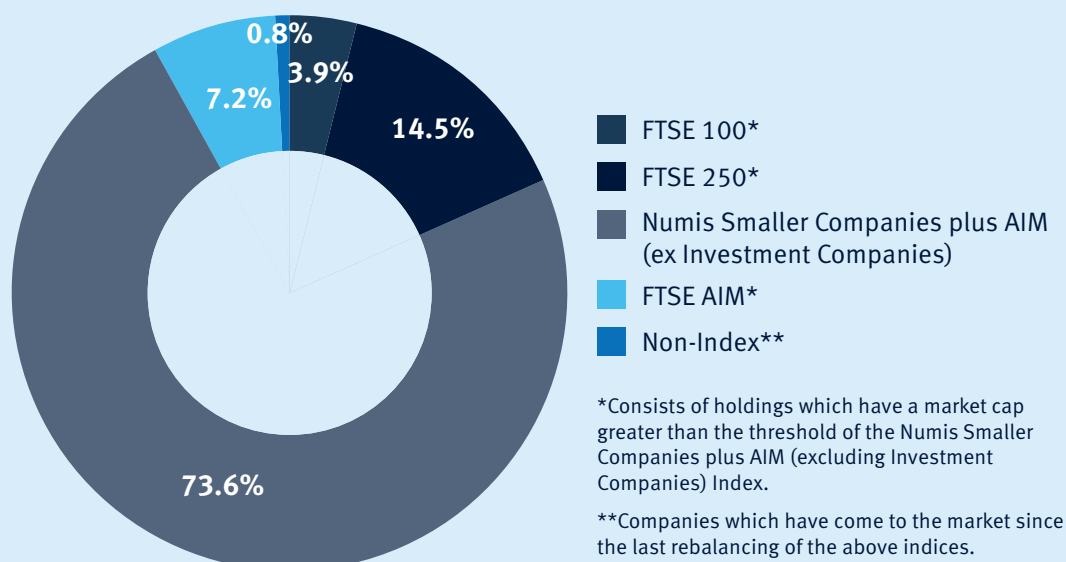
23 August 2018

Strategic Report

Our Portfolio

Market Cap Exposure

As at 30 June 2018



Strategic Report

Our Portfolio

Sector Exposure

As at 30 June 2018



26% INDUSTRIALS



18% CONSUMER SERVICES



16% CONSUMER GOODS



15% TECHNOLOGY



12% HEALTH CARE



8% FINANCIALS



3% TELECOMS



2% CASH & OTHER

Strategic Report

Portfolio of Investments

As at 30 June 2018

Stock	Key Sector	Valuation as at 30 June 2018 £'000	Weight %	Valuation as at 30 June 2017 £'000
Fevertree Drinks	Beverages	19,745	4.7	13,864
First Derivatives	Software & Computer Services	18,007	4.2	12,104
Dechra Pharmaceuticals	Health Care Equipment & Services	16,482	3.9	10,574
NMC Health	Health Care Equipment & Services	15,074	3.6	16,050
JD Sports Fashion	General Retailers	14,370	3.4	9,722
Midwich	Support Services	14,037	3.3	7,040
Hilton Food Group	Food Producers	13,582	3.2	7,658
Abcam	Pharmaceuticals & Biotechnology	13,361	3.2	9,750
Cranswick	Food Producers	13,098	3.0	10,094
Workspace	Real Estate Investment Trusts	12,424	2.9	9,776
Top ten investments		150,180	35.4	
XP Power	Electronic & Electrical Equipment	12,306	2.9	5,632
Accesso Technology	Software & Computer Services	12,036	2.8	8,760
Hill & Smith Holdings	Industrial Engineering	10,602	2.6	7,543
RWS	Support Services	10,594	2.5	8,086
Gamma Communication	Mobile Telecommunications	10,556	2.5	8,610
GB Group	Software & Computer Services	10,279	2.4	6,448
FDM Group	Software & Computer Services	9,105	2.2	6,699
Sanne Group	Support Services	9,095	2.1	10,687
Joules Group	General Retailers	9,053	2.1	5,379
Diploma	Support Services	8,399	2.0	5,081
Top twenty investments		252,205	59.5	
Marshalls	Construction & Materials	8,097	1.9	4,916
CVS Group	General Retailers	7,976	1.9	10,419
Dart	Travel & Leisure	7,892	1.9	5,156
4Imprint Group	Media	7,563	1.8	7,026
Next Fifteen Communications	Media	7,530	1.8	6,401
Mattioli Woods	Financial Services	6,904	1.6	6,817
Boot (Henry)	Construction & Materials	6,874	1.6	2,863
Gooch & Housego	Electronic & Electrical Equipment	6,587	1.5	2,665
Alfa Financial Markets	Support Services	6,327	1.5	-
Ted Baker	Personal Goods	6,287	1.4	6,976
Top thirty investments		324,242	76.4	

Strategic Report

Portfolio of Investments

As at 30 June 2018

Stock	Key Sector	Valuation as at 30 June 2018 £'000	Weight %	Valuation as at 30 June 2017 £'000
Kainos	Software & Computer Services	6,203	1.5	2,413
Headlam	Household Goods & Home Construction	6,176	1.5	5,927
Greggs	Food & Drug Retailers	5,922	1.4	4,875
The Gym Group	Travel & Leisure	5,901	1.4	1,402
Paypoint	Support Services	5,610	1.3	5,454
Big Yellow	Real Estate Investment Trusts	5,582	1.3	3,838
Safestore Holdings	Real Estate Investment Trusts	5,477	1.3	-
Ricardo	Support Services	5,467	1.3	3,703
Blue Prism	Software & Computer Services	5,218	1.2	-
Motorpoint	General Retailers	5,102	1.2	1,384
Top forty investments		380,900	89.8	
Eco Animal Health Group	Pharmaceuticals & Biotechnology	4,624	1.1	4,070
Telecom Plus	Fixed Line Telecommunications	4,422	1.0	8,570
Paragon	Financial Services	3,963	1.0	3,530
Smart Metering Systems	Support Services	3,789	0.9	2,860
Team 17	Leisure Goods	3,521	0.9	-
Nichols	Beverages	3,480	0.8	5,534
Fisher (James) & Sons	Industrial Transportation	3,463	0.8	4,777
Hostelworld	Travel & Leisure	3,247	0.8	2,587
Gear4Music	Leisure Goods	3,156	0.7	3,173
Hotel Chocolat	Food Producers	3,054	0.7	2,457
Top fifty investments		417,619	98.5	
Moneysupermarket.com	Media	3,024	0.7	7,364
Medica	Health Care Equipment & Services	2,306	0.5	4,032
Alpha Financial Software	Software & Computer Services	1,245	0.3	816
Total Portfolio		424,194	100.0	

All investments are equity investments.

**Total number
of holdings**

53

Strategic Report

Ten Year Record

Year ended 30 June	Per Ordinary Share									
	Revenue return	Ordinary Dividends	Special Dividends	Diluted Net asset value ⁽¹⁾	Share price	Discount ⁽¹⁾	Ongoing charges as a % of average cum income net asset value ⁽²⁾	Net gearing ratio ⁽³⁾	Equity Shareholders' funds	Revenue reserves
	p	p	p	p	p	%		%	£m	£m ⁽⁴⁾
2009	2.56	1.60	-	111.23	100.50	9.6	1.17	3.7	70	1.28
2010	2.86	2.50	-	154.04	136.50	11.4	1.17	1.0	97	1.76
2011	4.35	2.75	1.00	240.65	237.00	1.5	1.00	8.8	155	2.96
2012	3.50	3.10	-	215.61	203.00	5.8	0.96	5.8	140	2.80
2013	4.58	4.05	-	281.58	280.50	0.4	1.28	8.8	193	3.69
2014	5.05	4.50	-	298.92	281.25	5.9	1.19	(4.6)	219	4.34
2015	6.76	5.80	-	336.89	300.00	10.9	1.19	4.1	243	5.83
2016	6.76	6.60	-	345.43	316.00	8.5	1.13	3.6	241	6.50
2017	6.42	6.70	-	456.60	431.00	5.6	1.08	1.7	324	6.26
2018	7.24	7.00	-	552.93	500.00	9.6	1.04	3.6	408	8.30

(1) Calculated with debt at par value and diluted for the effect of warrants in issue for the year ended 30 June 2009 and the effect of CULS conversion from 31 March 2011 until 30 June 2017. For 30 June 2018 net asset value is calculated with debt at par value.

(2) Calculated as an average of shareholders funds throughout the year.

(3) Net gearing ratio calculated as debt less cash invested in AAA-rated money market funds and short-term deposits divided by net assets at the year end.

(4) Revenue reserves are reported prior to paying the final dividend for the year.

The performance fee was removed on 1 July 2012 but up to 30 June 2012 it was allocated 100% to capital when payable.

Future Strategy

The Board and Manager intend to maintain the strategic policies set out in the Strategic Report for the year ending 30 June 2019 as it is believed that these are in the best interests of shareholders.

Approval of Strategic Report

The Strategic Report was approved by the Board of Directors on 23 August 2018 and signed on its behalf by:

Allister Langlands
Chairman

23 August 2018

Governance

Board of Directors

The Board of Directors of the Company is a highly experienced group of individuals with deep insights into investment trusts and the financial services world. The Board works closely with the Investment Manager, **Aberdeen Standard Investments**, to deliver shareholder value.

The Board is responsible for stewardship, including overall strategy, investment policy, borrowings, dividends, corporate governance procedures and risk management.

Governance

Board of Directors



Allister Langlands
Chairman

Allister was appointed as a Director on 1 July 2014 and was appointed Chairman on 22 August 2017. He also chairs the Nomination Committee. Allister is a chartered accountant and was, until 2014, Chairman of John Wood Group PLC, having served as chief executive from 2007 to 2012 and previously as deputy chief executive from 1999 and as group finance director from 1991. He is also independent non-executive Chairman of Maven Income and Growth VCT 5 plc. Allister was, until July 2017, Chairman of Exova Group plc and a non-executive director of WS Atkins plc.



Ashton Bradbury
Director

Ashton was appointed as a Director on 2 July 2018. He is a non-executive Director of Hargreave Hale AIM VCT 1 plc and, until 2014, was a fund manager with Old Mutual Global Investors Limited, where he established its Small and Mid-cap equities team. Ashton is a non-executive director of Golf Union of Wales Limited. Ashton holds a BSc Honours Degree in Banking and Finance from Loughborough University of Technology.



Carol Ferguson
Senior Independent Director

Carol was appointed as a Director on 4 February 2009 and is the Company's Senior Independent Director. She is a chartered accountant. Carol is the senior independent director of Vernalis plc, where she also chairs the Audit Committee. She was previously a non-executive director of BlackRock Greater Europe Investment Trust plc, Invesco Asia Trust plc and Monks Investment Trust PLC.



Caroline Ramsay
Director

Caroline was appointed as a Director on 22 August 2016 and is Chair of the Audit Committee. Caroline is currently a non-executive Director of Aegon UK PLC where she also chairs the Audit Committee and non-executive director of Scottish Equitable plc, Scottish Equitable Holdings Ltd and Cofunds Ltd. She is a non-executive director of Tesco Underwriting Limited and Brit Syndicates Limited and is a member of the Financial Conduct Authority's Regulatory Decisions Committee. Until June 2015, Caroline was the Group Chief Auditor for RSA plc having held previous senior positions at RSA plc including UK Chief Financial Officer. After qualifying and practising as a chartered accountant with KPMG, she held various roles within Aviva Plc.



Tim Scholefield
Director

Tim was appointed as a Director on 20 February 2017 and chairs the Management Engagement Committee. Tim is an Associate of the Society of Investment Professionals and previously held roles at Royal Sun Alliance Investments and Scottish Widows Investment Partnership. He was, until 2014, Head of Equities at Baring Asset Management. Tim is currently Chairman of City Merchants High Yield Trust Ltd, a non-executive Director of F&C Capital and Income Investment Trust Plc and Fidelity Asian Values Plc. In addition, he is a member of the Investment Committee of the General Medical Council, Chairman of the Investment Management Certificate Panel and consultant to Livingbridge EP LLP.

Governance

Directors' Report

The Directors present their report and the audited Financial Statements of the Company for the year ended 30 June 2018.

Principal Activity and Status

The Company was incorporated on 9 July 1993 and its Ordinary Shares were listed on the London Stock Exchange on 19 August 1993. The Company is registered as a public limited company in Scotland under company number SC145455. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and carries on business as an investment trust. The Company is a member of The Association of Investment Companies.

The Company has applied for and has been accepted as an approved investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. This approval relates to accounting periods commencing on or after 1 July 2012. The Directors are of the opinion, under advice, that the Company has conducted its affairs so as to be able to retain such approval. The Company intends to manage its affairs so that its Ordinary Shares continue to be a qualifying investment for inclusion in the stocks and shares component of an Individual Savings Account.

Capital Structure

The Company's issued share capital at 30 June 2018 consisted of 73,837,630 Ordinary Shares of 25 pence, with voting rights.

As at 30 June 2018 there were 2,447,950 Ordinary Shares held in treasury representing approximately 3.3% of the issued share capital as at that date (30 June 2017 – 3,375,842 (4.9%)).

During the year, the Company issued a total of 5,586,297 Ordinary Shares. This comprised 927,892 Ordinary Shares issued from treasury as a result of the thirteenth conversion of CULS as at 30 September 2017 and 4,658,405 new Ordinary Shares issued as a result of the final conversion of CULS as at 31 March 2018.

During the year no Ordinary Shares were bought back.

Post the year end, the Company bought back 210,574 Ordinary Shares into treasury. Accordingly, as at the date of this Annual Report, the Company's issued share capital consisted of 73,627,056 Ordinary Shares of 25 pence, with voting rights and 2,658,524 Ordinary Shares held in treasury.

Each ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held.

Discount Control

The Board operates a discount control mechanism which targets a maximum discount of the share price to the cumulative net asset value of 8% under normal market conditions. The Board aims to use its 14.99% share buy-back authority approved by shareholders annually at each AGM to seek to maintain a discount level of less than 8% to diluted net asset value. Share buy-backs will only be made where the Board believes it to be in the best interests of shareholders as a whole and the making and timing of share buy-backs will be at the discretion of the Board. The Board is seeking to renew its buy-back authority at the forthcoming AGM. The Board also intends to continue to seek shareholder approval to enable it to carry out tender offers in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level.

Directors

Biographies of the Directors of the Company who served throughout the year ended 30 June 2018 are shown on page 27. Ashton Bradbury was appointed to the Board on 2 July 2018 and his biographical details are also set out on page 27.

The Directors' interests in the ordinary share capital of the Company at 30 June 2018 and 30 June 2017, which were unchanged as at the date of this Annual Report, are shown in the table on page 35.

As previously announced, Carol Ferguson will retire from the Board following the conclusion of the 2018 AGM. The Board have agreed that Tim Scholefield will be appointed as the Company's Senior Independent Director to replace Carol Ferguson upon her retirement.

Ashton Bradbury, having been appointed to the Board during the year under review, will offer himself for election at the 2018 AGM.

As noted in the Chairman's Statement, as part of the proposed merger with Dunedin Smaller, Alexa Henderson will join the Board on completion of the merger which is expected to be at the beginning of October 2018. Alexa will offer herself for election at the 2018 AGM. Alexa's biographical details can be found on page 31.

All of the other Directors will retire and, being eligible, will offer themselves for re-election as Directors at the 2018 AGM to be held on 25 October 2018. The Board's policy on tenure may be found in the Statement of Corporate Governance on page 38.

No contract or arrangement subsisted during the period in which any of the Directors was materially interested and no Director had a service contract with the Company.

Governance

Directors' Report

Directors' and Officers' Liability Insurance

The Company's Articles of Association provide for each of the Directors to be indemnified out of the assets of the Company against any liabilities incurred by them as a Director of the Company in defending proceedings, or in connection with any application to the Court in which relief is granted. Directors' and Officers' liability insurance cover has been maintained throughout the year at the expense of the Company.

Investment Management Agreement

Since 1 September 2003, investment management services have been provided to the Company by Standard Life Investments (Corporate Funds) Limited. Up to 7 July 2014, this appointment was under the terms of an Investment Management Agreement (IMA) dated 15 August 2003, restated on 30 January 2009.

A new IMA was entered into on 7 July 2014, appointing Standard Life Investments (Corporate Funds) Limited as the Company's Alternative Investment Fund Manager (AIFM), as required by the Alternative Investment Fund Managers Directive (AIFMD). The commercial terms of the IMA were updated by way of a side letter to the IMA dated 16 and 22 March 2016 and provided for a new fee structure and new notice period. Accordingly, from 1 January 2016, the management fee is charged applying the rate of 0.85% to the first £250m of total assets, reducing to 0.65% on total assets above this threshold, and there is no performance fee. The IMA is terminable by either party on not less than six months' notice. In the event of termination on less than the agreed notice period, compensation is payable in lieu of the unexpired notice period. Company secretarial and administrative services are provided by Maven Capital Partners UK LLP under a separate agreement with the Manager.

As referred to in the Chairman's Statement on page 9, the terms of the IMA have been amended. Accordingly, from 1 July 2018, the management fee will be 0.85% per annum applying to the first £250m of the Company's net assets, 0.65% per annum applying above this £250m threshold until £550m and a new reduced fee of 0.55% charged on net assets above this figure.

The Board has reviewed both the terms of the IMA and the performance of the Manager for the year ended 30 June 2018 and is of the opinion that the continuing appointment of the Manager, on the terms set out in the IMA (as amended), is in the best interest of shareholders as a whole. The key factors taken into account in reaching this decision were the commitment, investment skills and experience of the Manager's personnel and the long-term record of its performance in managing smaller company equities.

Within the Income Statement, 75% of the investment management fee has been charged to capital for the year ended 30 June 2018. Further details of the fees are shown in note 3 to the Financial Statements.

Substantial Interests

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure, Guidance and Transparency Rules are published by the Company via a Regulatory Information Service.

The table below sets out the interests in 3% or more of the issued share capital of the Company, of which the Board was aware, as at 30 June 2018.

Name of Shareholder	Number of Ordinary Shares	%
Hargreaves Lansdown, stockbrokers (EO)	6,975,527	9.45
Brewin Dolphin, stockbrokers	6,682,407	9.05
M&G Investment Management	4,868,464	6.59
Aberdeen Standard Investments	4,693,576	6.36
Alliance Trust Savings	4,638,853	6.28
Investec Wealth & Investment	4,127,579	5.59
Brewin Dolphin, stockbrokers (ND)	3,039,877	4.12
Speirs & Jeffrey, stockbrokers	2,902,740	3.93

Source: RD:IR

The table below sets out the interests in 3% or more of the issued share capital of the Company, of which the Board was aware, as at 31 July 2018 (being the last practicable date prior to the publication of this Annual Report).

Name of shareholder	Number of Ordinary Shares	%
Hargreaves Lansdown, stockbrokers (EO)	7,087,242	9.61
Brewin Dolphin, stockbrokers	6,753,998	9.16
M&G Investment Management	4,856,859	6.59
Aberdeen Standard Investments	4,674,989	6.34
Alliance Trust Savings	4,588,200	6.22
Investec Wealth & Investment	4,098,874	5.56
Brewin Dolphin, stockbrokers (ND)	3,102,713	4.21
Legal & General Investment Management	3,064,229	4.16
Speirs & Jeffrey, stockbrokers	2,900,470	3.93

Source: RD:IR

The Board has not been notified of any changes to these holdings as at the date of this Annual Report.

Governance

Directors' Report

Going Concern

The Company's assets consist of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants, when applicable.

As at 30 June 2018, the Company had a £45 million unsecured loan facility agreement with Royal Bank of Scotland International Ltd. This consists of a 5 year, fixed-rate term loan facility of £25 million and a 5 year revolving credit facility of £20 million. (2017: no bank borrowings).

The Directors are mindful of the Principal Risks and Uncertainties disclosed in the Strategic Report on pages 14 and 15 and, having reviewed forecasts detailing revenue and liabilities, the Directors believe that the Company has adequate financial resources to continue its operational existence for a period of not less than 12 months from the date of approval of the Financial Statements. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements.

Viability Statement

In accordance with Provision C.2.2 of the UK Corporate Governance Code published in April 2016 and Principle 21 of the AIC Code of Corporate Governance published in July 2016, the Board has assessed the Company's prospects for a five year period from 30 June 2018. The Board considers five years to be an appropriate period for an Investment Trust company with a portfolio of equity investments and based on the financial position of the Company as detailed in the Strategic Report.

The Board has considered the Company's financial position and its ability to liquidate its portfolio and meet its liabilities and draws attention to the following points which the Board took into account in its assessment of the Company's future viability:

- a) The Company's investments are traded on the London Stock Exchange and there is a spread of investments held.
- b) The Company is closed ended in nature and therefore does not require to sell investments when shareholders wish to sell their shares.
- c) The Company typically has cash balances which, including money market funds, at 30 June 2018 amounted to £10.0 million. These balances allow the Company to meet liabilities as they fall due.

- d) The Board has considered the principal risks faced by the Company, together with the steps taken to mitigate these risks, as detailed in the Strategic Report and in the Statement of Corporate Governance and referred to in note 16 of the Financial Statements and has concluded that the Company would be able to take appropriate action to protect the value of the Company. The Company takes any potential risks to its ongoing success and ability to perform very seriously and works hard to ensure that risks are kept to a minimum at all times.
- e) Due to the nature of the business of the Company and the nature of its investments and to the Company's long history, the Board are able to conclude that expenses are predictable and modest in relation to asset values.
- f) There are no capital commitments currently foreseen that would alter the Board's view.

As detailed in the Financial Highlights on pages 4 and 5, the Company has performed strongly over the past year and since the appointment of the current Investment Manager in 2003. The Directors consider the Company's future prospects to be positive, as highlighted in the Chairman's Statement on pages 6 to 9.

In assessing the Company's future viability, the Board has assumed that investors will wish to continue to have exposure to the Company's activities, in the form of a closed ended entity, performance will continue to be satisfactory, and the Company will continue to have access to sufficient capital.

Therefore, after careful consideration of the Company's current position and future prospects and taking into account its risk-aware attitude, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Independent Auditor

The Directors who held office at the date of approval of this Annual Report have confirmed that, so far as they are each aware, there is no relevant audit information to which the Company's Independent Auditor was unaware, and that each Director had taken all the steps that they might reasonably be expected to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Independent Auditor was aware of that information.

Shareholders approved the appointment of KPMG LLP as the Company's new Independent Auditor at the AGM on 26 October 2017 and a resolution to approve their re-appointment for the year to 30 June 2019 will be proposed at the 2018 AGM.

Governance

Directors' Report

Global Greenhouse Gas Emissions

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

Additional Information

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by Part 15 of the Companies Act 2006.

There are no restrictions on the transfer of Ordinary Shares in the Company issued by the Company other than certain restrictions which may from time to time be imposed by law (for example, the Market Abuse Regulation). The Company is not aware of any agreements between shareholders that may result in a transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 36 to 41. The Company's Articles of Association may only be amended by a Special Resolution passed at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover. Other than the IMA with the Manager, further details of which are set out on page 29, the Company is not aware of any contractual or other agreements which are essential to its business which could reasonably be expected to be disclosed in the Directors' Report.

Annual General Meeting

The Notice of the Annual General Meeting, which will be held on Thursday, 25 October 2018, and related notes may be found on pages 73 to 77 of this Annual Report.

Election of Non-Executive Director

If the merger of the Company and Dunedin Smaller becomes effective, it is expected that Alexa Henderson will join the Board of the Company on or around 8 October 2018. In accordance with the Company's Articles of Association, Alexa will offer herself for election at the 2018 AGM. Alexa has over 30 years of experience in finance, accounting and audit having worked with KPMG, Arthur Andersen and Deutsche Bank (WM Company). She is currently a Non-Executive Director of Dunedin Smaller Companies Investment Trust PLC, F&C UK Real Estate Investments Limited and JP Morgan Japan Smaller Companies Trust PLC. She has chaired the audit committee of each of these companies. In addition, Alexa sits on the board of James Walker (Leith) Limited and Bravura Solutions Ltd, incorporated in Australia. Previous directorships include Scottish Building Society (which she chaired for 4 years) and Adam & Company Group PLC (a private

wealth subsidiary of RBS). Alexa Henderson holds a BSc in Economics and Accounting from Edinburgh University, is a Chartered Accountant and has been a member of the Institute of Chartered Accountants of Scotland since 1985.

Issue of Ordinary Shares by the Company

Among the Resolutions being put to the AGM as Ordinary Business, Resolution 11, which is an Ordinary Resolution, will, if passed, renew the Directors' authority to allot new Ordinary Shares up to 10% of the issued share capital of the Company as at the date of the 2018 AGM (excluding treasury shares).

Resolution 12, which is a Special Resolution, will, if passed, renew the Directors' existing authority to allot new Ordinary Shares or sell treasury shares for cash without the new Ordinary Shares first being offered to existing shareholders in proportion to their existing holdings. This will give the Directors authority to make limited allotments or sell shares from treasury of up to 10% of the total ordinary issued share capital, excluding treasury shares as at the date of the 2018 AGM. The authority to issue shares on a non pre-emptive basis includes shares held in treasury (if any) which the Company sells or transfers, including pursuant to the authority conferred by Resolution 11. Since the introduction of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 on 1 December 2003, a listed company is able to hold shares that it has repurchased in treasury rather than cancel them.

New Ordinary Shares will only be issued at prices representing a premium to the last published net asset value per share.

As at 30 June 2018 there were 2,447,950 Ordinary Shares held in treasury representing approximately 3.3% of the Company's issued capital as at 30 June 2018 (30 June 2017: 3,375,842 (4.9%)). At the date of this Annual Report there were 2,658,524 Ordinary Shares held in treasury, as a result of multiple share buy-backs completed after the year end.

The authorities being sought under Resolutions 11 and 12 shall expire at the conclusion of the next AGM in 2019 or, if earlier, on the expiry of 15 months from the date of the passing of the Resolutions, unless such authority is renewed prior to such time. The Directors have no current intention to exercise these authorities and will only do so if they believe it is advantageous and in the best interests of shareholders.

Purchase of the Company's Ordinary Shares

The Company's buy-back authority was last renewed at the AGM on 26 October 2017. Special Resolution 13 renews the Board's authority to make market purchases of the Company's Ordinary Shares in accordance with the provisions contained in the Companies Act 2006 and the FCA's Listing Rules. Accordingly, the Company will seek the authority to purchase up to a maximum of 14.99% of the issued share capital (excluding treasury shares) at the date of passing of Resolution 13 at a minimum price of not less than 25 pence

Governance

Directors' Report

per share (being the nominal value). Under the Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed 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 over the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out.

The Board does not intend to use this authority to purchase the Company's Ordinary Shares, unless to do so would result in an increase in the net asset value per Ordinary Share and would be in the best interests of shareholders. Any Ordinary Shares purchased shall either be cancelled or held in treasury. The authority being sought shall expire at the conclusion of the AGM in 2019 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 13 unless such authority is renewed prior to such time.

Sale of Treasury Shares

Subject to the passing of Resolution 12, Ordinary Resolution 14 will give the Directors authority to sell Ordinary Shares out of treasury for cash at a price below the then prevailing net asset value of the Ordinary Shares provided always that the Ordinary Shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the Ordinary Shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the Ordinary Shares were purchased at. Any dilution to the net asset value resulting from (b) above shall be restricted to no more than 0.5% in any financial year.

Tender Offers

In addition to the authority that is being sought by the Company under Resolution 13 to purchase its own shares of 25 pence each, Special Resolution 15 grants the Board the authority to implement one or more tender offers and to repurchase up to a maximum of 10% of the Company's issued share capital in the financial year prior to the conclusion of the next AGM to be held in 2019. If Resolution 15 is passed the tender offers will be structured by way of an on-market offer by a market-maker and the price will be an amount equal to the realisation value of the assets attributable to the shares tendered, as at the latest practicable date before such tender, less an exit charge of 2%. The shares will subsequently be bought back by the Company from the market-maker at the same price and cancelled or held in treasury.

If Resolution 15 is passed, such authority will expire at the conclusion of the Company's next AGM in 2019, unless renewed prior to that date.

Any future tender offer will be conducted at the Board's discretion in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level. Any tender offers will be conducted in accordance with the FCA's Listing Rules and the rules of the London Stock Exchange. If the Board decides to implement a tender offer, shareholders will be notified prior to each tender offer of the full terms and conditions of the tender offer and the procedure for tendering shares.

Notice of Meeting

Under the Companies Act 2006, the notice period for the holding of general meetings of the Company is 21 clear days unless shareholders agreed to a shorter notice period and certain other conditions are met. Resolution 16, which is a Special Resolution, will be proposed to authorise the Directors to call general meetings of the Company (other than Annual General Meetings) on not less than 14 clear days' notice, as permitted by the Companies Act 2006 amended by the Companies (Shareholders' Rights) Regulations 2009.

It is currently intended that this flexibility to call general meetings on shorter notice will only be used for non-routine business and where it is considered to be in the interests of all shareholders. If Resolution 16 is passed, the authority to convene general meetings on not less than 14 clear days' notice will remain effective until the conclusion of the AGM in 2019 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 16, unless renewed prior to such time.

Recommendation

Your Board considers Resolutions 1 to 11 inclusive and Resolution 14, which are all Ordinary Resolutions, and Resolutions 12, 13, 15 and 16, all of which are Special Resolutions, to be in the best interests of the Company and most likely to promote the success of the Company for the benefit of its members as a whole. Accordingly, your Board unanimously recommends that shareholders vote in favour of Resolutions 1 to 16 inclusive to be proposed at the AGM on 25 October 2018.

By order of the Board,

Maven Capital Partners UK LLP
Company Secretary

23 August 2018

Governance

Directors' Remuneration Report

This report has been prepared, in accordance with the requirements of Section 421 of the Companies Act 2006 and the Enterprise and Regulatory Reform Act 2013. An Ordinary Resolution for the approval of this report will be put to the members of the Company at the forthcoming AGM. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such and the Auditor's opinion is included in their report on pages 46 to 48.

The Directors have not established a Remuneration Committee. Consideration of Directors' fees and remuneration policy is undertaken by the Nomination Committee. As all of the Directors are non-executive, the Company is not required to comply with the Principles of the UK Corporate Governance Code in respect of executive directors' remuneration.

As at 30 June 2018, the Company had four non-executive Directors, comprising 2 males and 2 females, and their biographies are shown in the Board of Directors section of this Annual Report on page 27. The names of the Directors who served during the year together with the fees paid during the year are shown in the table on page 35.

It is the Board's intention that the Company's Remuneration Policy be put to a shareholders' vote at least once every three years. An Ordinary Resolution for the approval of the Company's Remuneration Policy for the three years to 30 June 2020 was proposed and approved at the 2017 AGM and an Ordinary Resolution for its approval will next be proposed at the 2020 AGM in respect of the Company's Remuneration Policy for the three years to 30 June 2023.

Remuneration Policy

The Company's policy is that the remuneration of the Directors, all of whom are non-executive, should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts with a similar capital structure and similar investment objectives. Directors are remunerated exclusively in the form of fees, payable monthly in arrears to the Director personally. The fees for

the Directors are determined within the limits set out in this Remuneration Policy which limits the aggregate of the fees payable to the Directors to £150,000 per annum. It is intended that the fees payable to the Directors should reflect their duties, responsibilities, and the value and amount of time committed to the Company's affairs, and should also be sufficient to enable candidates of a high quality to be recruited and retained. There is no performance-related remuneration scheme and therefore the Directors do not receive bonuses, pension benefits, share options, long-term incentive schemes or other benefits, and the fees are not specifically related to the Directors' performance, either individually or collectively.

A copy of the Remuneration Policy may be inspected by the members of the Company at its Registered Office.

During the year ended 30 June 2018, the Board was not provided with advice or services by any person in respect of its consideration of the Directors' remuneration. However, in the application of the Board's policy on Directors' remuneration, the Committee reviews the fees paid to the directors of other investment trust companies.

During the year ended 30 June 2018, the Board carried out a review of the Remuneration Policy and the level of Directors' fees and recommended that the rates of remuneration should be increased by an average of 9.2% for the year to 30 June 2019. Accordingly the Chairman's fee will be increased from £31,500 to £34,000, the fee for the Chair of the Audit Committee will increase from £24,150 to £27,000 and the fees for each Director will increase from £21,000 to £23,000. An additional fee of £1,500 will be paid to the Chairman of the Management Engagement Committee. The Committee concluded that the Directors' fees had fallen behind other similar investment trust companies and believes the revised fee levels remain competitive with that peer group.

Governance

Directors' Remuneration Report

Directors' Fees and Total Remuneration

The Company does not have any employees and Directors' remuneration comprises solely of Directors' fees, as stated above.

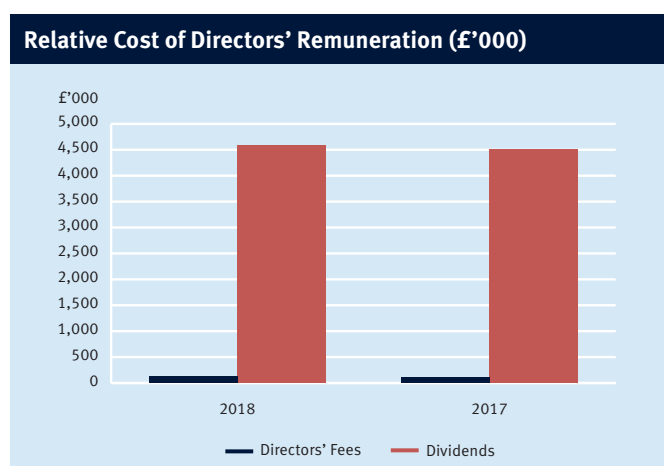
Directors do not have service contracts, but new Directors are provided with a letter of appointment. The terms of appointment provide that Directors should retire and be subject to election at the first AGM after their appointment. The Company's Articles require all Directors to retire by rotation at least every three years.

Notwithstanding the Articles, the Board has agreed that all Directors should retire annually and seek re-election at the AGM. There is no notice period and no provision for compensation upon early termination of appointment, save for any arrears of fees which may be due.

During the year ended 30 June 2018, no communication has been received from shareholders regarding Directors' remuneration. The Remuneration Policy and the level of fees payable is reviewed annually by the Board and it is intended that the current policy will continue for the year ending 30 June 2019.

Relative Cost of Directors' Remuneration

To enable shareholders to assess the relative importance of spend on Directors' remuneration, the chart below shows for the years ended 30 June 2017 and 30 June 2018, the cost of Directors' fees compared with the level of dividend distribution.



As noted in the Strategic Report, all of the Directors are non-executive and, therefore, the Company does not have a chief executive officer, nor does it have any employees. In the absence of a chief executive officer or employees, there is no related information to disclose.

At the AGM held on 26 October 2017, the results in respect of the Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 30 June 2017 was as follows:

	Percentage of votes cast for	Percentage of votes cast against
Directors' Remuneration Report	99.84%	0.16%

A Resolution will be put to shareholders at the 2018 AGM to approve the Directors' Remuneration Report for the year ended 30 June 2018.

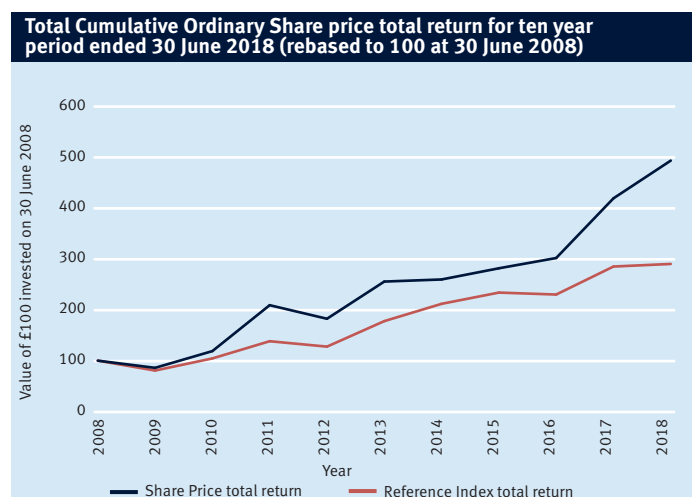
Directors' and Officers' Liability Insurance

The Company purchases and maintains liability insurance covering the Directors and Officers of the Company. This insurance is not a benefit in kind, nor does it form part of the Directors' remuneration.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the Investment Management Agreement, as referred to in the Directors' Report.

The graph below compares the total returns on an investment of £100 in the Ordinary Shares of the Company for the ten years to 30 June 2018, assuming all dividends are reinvested, with the total shareholder return on a notional investment of £100 from the Numis Smaller Companies (excluding Investment Companies) Index until 31 December 2017 and the Numis Smaller Companies plus AIM (excluding Investment Companies) Index thereafter. These indices were chosen for comparison purposes as they are, or were, the Company's reference index during the period.



Source: Thomson Reuters Datastream

Governance

Directors' Remuneration Report

Directors' Remuneration (audited)

The Directors who served during the year received the following emoluments in the form of fees and taxable expenses:

Director	Year ended 30 June 2018 Fees £	Year ended 30 June 2018 Taxable expenses £	Year ended 30 June 2018 Total £	Year ended 30 June 2017 Fees £	Year ended 30 June 2017 Taxable expenses £	Year ended 30 June 2017 Total £
Allister Langlands	29,662	470	30,132	23,000	1,224	24,224
Carol Ferguson	21,000	3,003	24,003	20,000	3,260	23,260
Caroline Ramsay	23,362	4,666	28,028	17,204	4,556	21,760
Lynn Ruddick ¹	—	—	—	6,667	2,902	9,569
Tim Scholefield ²	21,000	1,375	22,375	7,083	531	7,614
David Woods ³	9,343	—	9,343	30,000	543	30,543
Total	104,367	9,514	113,881	103,954	13,016	116,970

1. Lynn Ruddick retired 27 October 2016
2. Tim Scholefield appointed 20 February 2017
3. David Woods retired 26 October 2017

The above amounts exclude any employers' national insurance contributions, if applicable. No other forms of remuneration were received by the Directors and none of the Directors received compensation for loss of office or non-cash benefits for the year ended 30 June 2018 (2017: £nil).

There are no outstanding Directors' fees payable at the year ended 30 June 2018 (2017: £nil).

Directors' Interests (audited)

The Directors' Interests in the Ordinary Share capital of the Company, which remain unchanged as at the date of this report, are shown below. There is no requirement for Directors to hold shares in the Company.

Director	Ordinary Shares held at 30 June	
	2018	2017
Allister Langlands	95,000	95,000
Carol Ferguson	49,757	44,512
Caroline Ramsay	4,545	4,545
Tim Scholefield	3,964	3,964
Total	153,266	153,021

Approval

The Directors' Remuneration Report was approved by the Board of Directors and signed on its behalf by:

Allister Langlands
Director

23 August 2018

Governance

Statement of Corporate Governance

Introduction

The Board is accountable to the Company's shareholders for high standards of corporate governance and this statement describes how the Company applies the main principles identified in the UK Corporate Governance Code ("the Governance Code") issued in April 2016. The Governance Code is available from the website of the Financial Reporting Council at www.frc.org.uk. In July 2018, the FRC issued an updated version of the Governance Code, which takes effect from 1 January 2019. The Board are considering the future implications of the new code. The Association of Investment Companies ("the AIC") has published its own Code on Corporate Governance ("the AIC Code"), by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"), (July 2016 editions), which provide a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest alternative approaches to those set out in the Governance Code. The AIC is currently revising the AIC Code and it is expected that a revised AIC Code will be published in early December 2018, with an application date for accounting periods beginning on or after 1 January 2019, the same as the Governance Code. Both the AIC Code and AIC Guide are available from the AIC website at www.theaic.co.uk.

Application of the Main Principles of the Governance Code and the AIC Code

This statement describes how the main principles identified in the Governance Code and the AIC Code ("the Codes") have been applied by the Company throughout the year as is required by the Listing Rules of the Financial Conduct Authority. In instances where the Governance Code and AIC Code differ, an explanation will be given as to which governance code has been applied, and the reason for that decision.

The Board is of the opinion that the Company has complied fully with the main principles identified in the Codes except as set out below:

- ▶ the role of the chief executive – Code provision A2.1;
- ▶ the need for an internal audit function – Code provision C.3.6; and
- ▶ executive directors' remuneration – Code provisions D2.1, D2.2 and D2.4.

For the reasons set out in the AIC Guide, and as explained in the Governance Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Board

Following the appointment of Ashton Bradbury on 2 July 2018, the Board, of three males and two females, consists of a non-executive Chairman, Allister Langlands, and four

non-executive Directors. The names and biographies of those Directors who held office at 30 June 2018 and at the date of this Annual Report, appear on page 27 and indicate their range of investment, industrial, commercial and professional experience. Carol Ferguson is the Company's Senior Independent Director.

All Directors are considered under the Codes to be independent of Standard Life Investments (Corporate Funds) Limited ("the Manager") and free of any relationship which could materially interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct.

The Board sets the Company's objectives and ensures that its obligations to its shareholders are met. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.

These matters include:

- ▶ the maintenance of clear investment objectives and risk management policies;
- ▶ the monitoring of the business activities of the Company ranging from analysis of investment performance through to review of quarterly management accounts;
- ▶ monitoring Companies Act 2006 requirements such as approval of the Half-Yearly Financial Report and Annual Report and Financial Statements and approval and recommendation of any dividend;
- ▶ setting the range of gearing in which the Manager may operate;
- ▶ major changes relating to the Company's structure including share buy-backs and share issuance;
- ▶ Board appointments and removals and the related terms;
- ▶ authorisation of Directors' conflicts or possible conflicts of interest;
- ▶ terms of reference and membership of Board Committees;
- ▶ appointment and removal of the Manager and the terms and conditions of the Investment Management Agreement relating thereto; and
- ▶ London Stock Exchange/UK Listing Authority/Financial Conduct Authority - responsibility for approval of all circulars, listing particulars and other releases concerning matters decided by the Board.

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, the Directors prepare a list of other positions held and all other conflict situations that may need authorising either in relation

Governance

Statement of Corporate Governance

to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations which will require to be authorised by the Board. Authorisations given by the Board will be reviewed at each Board meeting.

Following the implementation of the Bribery Act 2010, the Board adopted appropriate procedures designed to prevent bribery.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors also have access to the advice and services of the Company Secretary through its appointed representatives who is primarily responsible to the Board:

- ▶ for ensuring that Board procedures are complied with;
- ▶ under the direction of the Chairman, for ensuring good information flows to the Board and its Committees, as well as facilitating induction and assisting with professional development as required; and
- ▶ for advising, through the Chairman, on all corporate governance matters.

The Board meets formally at least five times a year, and more frequently where business needs require.

The Board formally met on five occasions during the year ended 30 June 2018. Details of attendance by each of the Directors and Committee members at Board and other Committee meetings are shown in the table below. Between meetings, the Board maintains regular contact with the Manager.

The primary focus at regular Board meetings is a review of investment performance and associated matters including gearing, marketing and investor relations, peer group information and industry issues.

	Board Meetings	Audit and Management Engagement Committee Meetings	Nomination Committee
Allister Langlands	5 (5)	2 (2)	3 (3)
Carol Ferguson	4 (5)	2 (2)	2 (3)
Caroline Ramsay	5 (5)	2 (2)	3 (3)
Tim Scholefield	5 (5)	2 (2)	3 (3)
David Woods ¹	2 (2)	1 (1)	N/A

Table: Directors' attendance at Board and Committee meetings with the number of meetings which they were eligible to attend in brackets.

¹ David Woods retired from the Board following the conclusion of the AGM on 26 October 2017.

In addition, members of the Board attended a total of seven additional meetings in the year including the AGM of the Company and other committee meetings dealing with matters such as the approval of the annual and interim results, the issue of Ordinary Shares following CULS conversions, and the approval of the £45m Revolving Credit Facility entered into with Royal Bank of Scotland International Ltd.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers including the Manager's report and discussion documents regarding specific matters. Directors make further enquiries where necessary.

External Agencies

The Board has contractually delegated to external agencies, including the Manager and other service providers, certain services including: the management of the investment portfolio, the depositary services (which include the custody and safeguarding of the assets), the share registration services and the day-to-day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered in so far as they relate to the affairs of the Company. In addition, ad hoc reports and information are supplied to the Board as requested.

Board Committees

The terms of reference for each of the two Board Committees, which are reviewed annually, are available for download from the Company's website: www.standardlifeuksmallercompaniestrust.co.uk

Audit and Management Engagement Committee

Information regarding the composition, responsibilities and activities of the Audit and Management Engagement Committee are detailed in the Report of the Audit and Management Engagement Committee on pages 42 to 44.

Subsequent to the period under review, the Directors have decided to restructure the Audit and Management Engagement Committee and, with effect from 1 July 2018, the Company now has an Audit Committee comprised of all Directors and chaired by Caroline Ramsay and a separate Management Engagement Committee, also comprised of all Directors and chaired by Tim Scholefield.

Governance

Statement of Corporate Governance

Nomination Committee

A Nomination Committee has been established comprising the full Board and whose Chairman is the Chairman of the Company.

The main responsibilities of the Committee include:

- ▶ regularly reviewing the structure, size and composition (including the skills, knowledge, experience, diversity and gender) of the Board;
- ▶ undertaking succession planning, taking into account the challenges and opportunities facing the Company and identifying candidates to fill vacancies;
- ▶ recruiting new directors, undertaking open advertising or engaging external advisers to facilitate the search, as appropriate, with a view to considering candidates from a wide range of backgrounds, on merit, and with due regard for the benefits of diversity on the Board, including gender, taking care to ensure that appointees have enough time available to devote to the position;
- ▶ ensuring that new appointees receive a formal letter of appointment and suitable induction and ongoing training;
- ▶ arranging for annual Board performance evaluation to ensure that Directors are able to commit the time required to properly discharge their duties;
- ▶ making recommendations to the Board as to the position of Chairman, Senior Independent Director and Chairmen of the Nomination and Audit and Management Engagement Committees;
- ▶ assessing, on an annual basis, the independence of each Director; and
- ▶ approving the re-appointment of any Director or the re-election, subject to the Governance Code, the AIC Code, or the Articles, of any Director at the AGM, having due regard to their performance, ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

The Committee reviews regularly the composition, experience and commitment of the Directors, particularly in relation to succession planning and recommendations for individual re-election at each AGM. For new appointments, a description of the required role is prepared and an external search consultancy would generally be used to ensure a wide range of candidates are considered. The Committee also ensures that appropriate induction is arranged by the Manager for a newly appointed Director. This involves meetings about the Company, the Manager, legal responsibilities of Directors and investment trust industry matters. Directors are provided, on a regular basis, with key information on the Company's policies,

regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to participate in training courses run by the AIC.

All non-executive Directors are initially appointed until the first AGM following their date of appointment.

The Board has considered the Governance Code recommendation for the annual re-election of Directors and confirms that all Directors are subject to annual re-election at the AGM.

The Board and Committees undertook an annual performance evaluation during the year, using questionnaires and discussion, to ensure that the Directors have all devoted sufficient time and contributed adequately to the work of the Board and Committees and to consider each Director's independence.

The Board's policy on tenure is that Directors need not serve on the Board for a limited period of time only. The Board does not consider that the length of service of a Director is as important as the contribution he or she has to make, and therefore the relevance of individual length of service will be determined on a case by case basis.

As previously announced, Carol Ferguson, a Director who served during the year to 30 June 2018, will retire from the Board following the conclusion of the 2018 AGM and will not stand for re-election.

Allister Langlands, Caroline Ramsay and Tim Scholefield will retire, and being eligible, will each offer themselves for re-election as a Director at the 2018 AGM.

During the year, the independent search consultancy, Fletcher Jones Ltd, was used to assist in the selection of a new Director. This company has no other relationship with the Company or with any of the Directors. The search was successful and Ashton Bradbury was appointed to the Board on 2 July 2018. Accordingly, Ashton Bradbury, having been appointed as a Director during the year, will stand for election at the 2018 AGM.

In their absence, Caroline Ramsay and Tim Scholefield have been evaluated by their fellow Directors. The Board considers that none of their other commitments (as set out on page 27 of this Annual Report) interfere with the discharge of their responsibilities to the Company and is satisfied that individually they make sufficient time available to serve the Company effectively. There have been no significant changes to the other commitments of Caroline Ramsay or Tim Scholefield. The outcome of this evaluation was satisfactory in each case. The Board considers that, due to their individual skills, experience and commitment, Caroline Ramsay and Tim Scholefield each merit re-election as a Director and shareholders are encouraged to support the AGM resolutions

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Statement of Corporate Governance

in respect of their individual re-elections. The Board considers that due to his individual skills, experience and commitment, Ashton Bradbury merits election as a Director and shareholders are encouraged to support the AGM resolution for his election. As Ashton Bradbury was appointed after the year end, his performance will be evaluated in 2019.

The Board carried out a performance evaluation of Allister Langlands as Chairman and concluded that Allister Langlands was an effective Chairman and recommended that he continue to serve as Chairman and that a resolution for his re-election be put to shareholders at the 2018 AGM.

As permitted under the FCA's Listing Rules, which allow the Company to dispense with appointing a separate remuneration committee, the Nomination Committee fulfils the requirement to review regularly the level of Directors' remuneration. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is detailed in the Directors' Remuneration Report on pages 33 to 35.

Although the Company does not have a formal policy on diversity, as detailed on page 38, consideration of Board diversity forms part of the responsibilities of the Nomination Committee.

Communication with Shareholders

The Company reports formally to shareholders twice a year by way of the Half-Yearly Financial Report and the Annual Report which each include an analysis of the risks and uncertainties facing the Company. A monthly factsheet is published on the Company's website and is available to all shareholders on request: see Key Contacts (page 70) for details. The Company's net asset value is published each business day. In addition, details of all portfolio investments are published via the London Stock Exchange and the Company's website on a monthly basis (monthly in arrears).

Further details of the Company's policy on shareholder communications, including documents to be made available on the Company's website, may be found on page 71.

The Directors are available to discuss issues of concern or areas of uncertainty with any shareholders and key contacts for the Company may be found on page 70.

The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of shareholder communications for distribution to their customers.

The Company's AGM provides a forum for communication primarily with private shareholders and is attended by the Board. The Manager makes a presentation to the meeting and all shareholders have the opportunity to put questions to both the Board and the Manager at the AGM.

Each person attending the AGM as a proxy is entitled to vote on a show of hands. A separate resolution is proposed in respect of each substantially separate issue. The results of proxy voting are relayed to shareholders after the resolutions have been voted on by a show of hands. The result of any poll will subsequently be made available on the Company's website. In order to ensure that detailed discussion of key issues is possible, the Company normally aims to circulate to shareholders the Annual Report and the Notice of AGM not less than 20 working days before the date of the meeting.

The Directors undertake a programme of inviting major shareholders to discuss issues of governance or strategy with the Chairman or Senior Independent Director. In addition, the Manager has an annual programme of meetings with institutional shareholders and reports back to the Board on these meetings.

The Notice of Annual General Meeting on pages 73 to 77 sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 31 and 32. Separate resolutions are proposed for each substantive issue.

Shareholders have direct access to the Company, including the Chairman and the Senior Independent Director by contacting the Company Secretary. See Key Contacts (page 70) for details.

Internal Control and Risk Management

The Board is ultimately responsible for the Company's system of internal control and risk management and for reviewing its effectiveness. Day-to-day measures have been delegated to the Manager and the Company Secretary with an effective process of reporting to the Board for supervision and control.

Following publication by the Financial Reporting Council of "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" ("the FRC Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

This process has been in place for the year under review and up to the date of approval of this Annual Report and is regularly reviewed by the Board and accords with the FRC Guidance. The Board has reviewed the effectiveness of the system of internal control and risk management. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are detailed in the Strategic Report on pages 14 and 15.

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Statement of Corporate Governance

The key components designed to provide effective internal control and risk management are outlined below:

- ▶ the Manager prepares management reports which allow the Board to assess the Company's activities and review its performance;
- ▶ the Board and Manager have agreed a defined investment policy and relevant reports, including performance statistics and investment valuations, are submitted to each Board meeting;
- ▶ as a matter of course the Manager's internal audit and compliance departments continually review the operations of the Manager and other service providers;
- ▶ written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- ▶ the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Manager, has decided to rely upon the Manager's systems and internal audit procedures;
- ▶ the Board reviews Internal Control reports by BNP Paribas Securities Services as Depositary and Custodian;
- ▶ the Board receives and reviews the annual Internal Control Reports published by the Manager and the Administrator; and
- ▶ bi-annually the Audit and Management Engagement Committee formally carries out an assessment of internal control and risk management by considering documentation from the Manager and the Company Secretary, including the internal audit and compliance functions and taking account of risk management problems or compliance breaches identified previously, and reports to the Board on its conclusions. At the conclusion of these reviews, the Board decides whether any changes to the system of internal control are required.

With effect from 7 July 2014 (and as amended by side letters dated 16 and 22 March 2016 and 22 August 2018), the Company entered into arrangements to comply with the Alternative Investment Fund Managers Directive (AIFMD). The Company appointed Standard Life Investments (Corporate Funds) Limited as its Alternative Investment Fund Manager (AIFM) and BNP Paribas Securities Services as its Depositary.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

The AIFM has a permanent risk management function to ensure that effective risk management policies and procedures are in place to monitor compliance with risk limits.

The AIFM has a risk policy which covers the risks associated with the management of the portfolio and the adequacy and appropriateness of this policy is reviewed at least annually.

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. Accordingly, the system of internal control and risk management is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, by its nature, can only provide reasonable and not absolute assurance against misstatement and loss.

Corporate Governance, Stewardship and Proxy Voting

The Financial Reporting Council (FRC) first published the UK Stewardship Code ("the Code") for Institutional Shareholders on 2 July 2010. The Code was revised in September 2012. The purpose of the Code is to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and assist institutional investors with the efficient exercise of their governance responsibilities. The FRC is encouraging institutional investors to make a statement of their commitment to the Code.

The Board has reviewed the Manager's statement of compliance with the Code, which appears on the Manager's website, at http://www.standardlifeinvestments.com/governance_and_stewardship/the_uk_stewardship_code/index.html

The Board has delegated responsibility for actively monitoring the activities of portfolio companies to the Manager. The Board has reviewed and accepts the Manager's corporate governance principles and policies ("the Principles and Policies"), which may be found on the Manager's website at http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/principles_and_policies.html. These Principles and Policies set out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to the companies in which the Manager has invested or is considering investing.

The Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by portfolio companies and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to use discretion in the exercise of the Company's voting rights.

The Board recognises and supports the Manager's policy of active engagement with investee companies and the voting of all of the shares held by the Company. The Board receives from the Manager regular reports on the exercise by the Manager of the Company's voting rights and discusses with the Manager any issues arising. It is the Board's view that having an active voting policy and a process for the monitoring by the Board of the Manager's exercise of those votes, especially in relation to controversial issues, aids the efficient exercise of the Company's governance responsibilities.

Governance

Statement of Corporate Governance

The Board is aware of its duty to act in the interests of the Company. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of corporate governance. The Manager believes that this can best be achieved by entering into a dialogue with company management, where practicable, to encourage them, where necessary, to improve their policies in this area.

Socially Responsible Investment Policy

The Manager undertakes constructive engagement with investee companies on issues of social, community and environmental responsibility in order to influence positively developments in these areas.

The Manager believes that a company run in the long-term interests of its shareholders should manage its relationships with its employees, suppliers and customers and behave responsibly towards the environment and society as a whole. Companies that demonstrate a commitment to environmental and social responsibility are considered by the Manager to be likely to enjoy comparative advantage in the long run.

By order of the Board,

Maven Capital Partners UK LLP
Company Secretary

23 August 2018

Governance

Report of the Audit and Management Engagement Committee

Audit and Management Engagement Committee

The Directors have established an Audit and Management Engagement Committee.

Membership

The Committee comprises all five current non-executive Directors. Details of the experience and qualifications of the Directors are set out on page 27. The Board is satisfied that all members of the Committee have a sufficient level of recent and relevant financial experience and that the Committee as a whole has competence relevant to the sector in which the Company operates. The Committee was chaired during the year initially by Allister Langlands until the appointment of Caroline Ramsay as Chair of the Committee on 22 August 2017.

Responsibilities

The main responsibilities of the Committee are:

- ▶ monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
 - ▶ reviewing those internal financial controls and the internal control and risk management systems of relevance to the Company as operated by its suppliers; to assist in this the Committee receives reports from the risk and compliance departments of the Manager;
 - ▶ making recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
 - ▶ reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
 - ▶ developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm;
 - ▶ providing advice on whether the Annual Report and Financial Statements, taken as a whole is, fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- ▶ reporting to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed, and making recommendations as to the steps to be taken.

Management Engagement matters

In relation to its responsibilities for management engagement, the Committee annually reviews matters concerning the Investment Management Agreement (IMA) between the Company and the Manager. Details of the IMA and the annual review performed by the Committee may be found on page 29 of the Directors' Report.

Review of Key Risks

As the principal focus of the Company is to generate long-term capital growth from investment in UK quoted smaller company equities, the valuation, existence and ownership of the investment portfolio is a key risk that requires the particular attention of the Committee. Similarly, as dividend income is a major source of revenue for the Company and a significant element of the statement of comprehensive income, the recognition of dividend income is a further risk that requires the particular attention of the Committee. For both investments and the dividend income generated, the Committee establishes and monitors the application of appropriate accounting policies.

During its review of the Company's financial statements for the year ended 30 June 2018, the Committee considered the two key risks detailed below:

Valuation, existence and ownership of the investment portfolio

How the risk was addressed – The Company uses the services of an independent custodian (BNP Paribas Securities Services) to hold the assets of the Company. An annual internal control report is received from the custodian and reviewed by the audit committee. This provides details of the custodian's control environment. The investment portfolio is reconciled regularly by the Manager. The portfolio is reviewed and verified by the Manager on a regular basis and management accounts including a full portfolio listing are prepared quarterly and are considered at the quarterly meetings of the Board. The Committee also considered the Independent Auditor's work and conclusions in this area. The valuation of investments is undertaken in accordance with the accounting policies disclosed in notes 1 b) and 1 c) to the financial statements on page 53.

The Committee satisfied itself that there were no issues associated with the valuation, existence and ownership of the investments which required to be addressed.

Governance

Report of the Audit and Management Engagement Committee

Recognition of dividend income

How the risk was addressed – The recognition of dividend income is undertaken in accordance with accounting policy note 1 (d) to the Financial Statements on page 53. Special dividends are allocated to the capital or revenue accounts according to the nature of the payment and the specific circumstances. The management accounts are reviewed by the Board on a quarterly basis and discussions take place with the Manager regarding the allocation of any special dividends that have been received. The Committee also considered the Independent Auditor's work and conclusions in this area.

The Committee concluded that there were no issues associated with the recognition of dividend income which required to be addressed.

Review of Risk Reporting

The Committee met twice during the year under review, in August 2017 and February 2018 and at each meeting considered the key risks detailed above and the corresponding internal control and risk reports provided by the Manager and the Company Secretary. No significant weaknesses in the control environment were identified and it was also noted that there had not been any adverse comment from the Independent Auditor and that the Independent Auditor had not identified any significant issues in its audit report. The Committee, therefore, concluded that there were no significant issues which required to be reported to the Board.

At its meeting in August 2018, the Committee reviewed the ongoing requirements for the 2018 Annual Report in relation to narrative reporting, enhanced audit reporting and the 2016 UK Corporate Governance Code. The Committee also reviewed the performance of the Manager and concluded that this was satisfactory and that the continued appointment of the Manager was in the continued best interests of shareholders as a whole.

Review of Financial Reporting

The preparation and audit of the Company's Annual Report and Financial Statements is a comprehensive process which not only requires input from a number of different parties, but also requires high levels of review and verification.

The Committee, when considering the draft Annual Report and Financial Statements for the year ended 30 June 2018, reviewed the Company's financial statements and approved the Company's accounting policies and members of the Committee applying their recent and relevant financial experience concluded that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Committee has assumed that the reader of the Annual Report and Financial Statements would have a reasonable knowledge of the investment trust industry in general and of investments trusts in particular.

The Committee has reported on these findings to the Board who affirm the Committee's conclusions in the Statement of Directors' Responsibilities on page 45.

Review of the Effectiveness of the Independent Auditor

Following a tender process in 2017, shareholders approved a resolution at the Company's AGM, held on 26 October 2017, to appoint KPMG LLP (KPMG) as Independent Auditor. This is the first year that the Company has been audited by KPMG. The Committee keeps the appointment of KPMG under ongoing review.

At its meeting in August 2018, the Committee also reviewed, for recommendation to the Board, the Audit Report from the Independent Auditor and the draft Annual Report and Financial Statements for the year ended 30 June 2018, along with the amount of the final dividend for the year then ended. At its meeting in February 2018, the Committee reviewed the Half Yearly Report.

As part of its annual review of auditor services, the Committee reviews the performance, cost effectiveness and general relationship with the Independent Auditor. In addition, the Committee reviews the independence and objectivity of the Independent Auditor.

Governance

Report of the Audit and Management Engagement Committee

Key elements of these reviews include: discussions with the Manager regarding the audit service provided, separate meetings with the Independent Auditor, consideration of the completeness and accuracy of KPMG's reporting and a review of the relationships that the Independent Auditor has with the Manager.

The Independent Auditor's Report is on pages 46 to 48. Details of the amounts paid to KPMG during the year for audit services are set out in note 4 to the Financial Statements.

The Company has in place a policy governing and controlling the provision of non-audit services by the Independent Auditor, so as to safeguard their independence and objectivity. Shareholders are asked to approve the appointment or re-appointment, and the Directors' responsibility for the remuneration, of the Independent Auditor at each AGM. Any non-audit work requires the specific approval of the Committee in each case. Non-audit work, where independence may be compromised or conflicts arise, is prohibited. During the year to 30 June 2018, no non-audit work was undertaken by KPMG. The Board has concluded that KPMG is independent of the Company.

It should be noted that KPMG will rotate the Senior Statutory Auditor responsible for the audit every five years. The next audit tender of the Company is due to take place by 2027 in compliance with the EU regulations and FRC Guidance on audit tenders.

A Resolution for the re-appointment of KPMG as Independent Auditor for the year ended 30 June 2019 will be put to the 2018 AGM.

As highlighted in the Statement of Corporate Governance on page 37, with effect from 1 July 2018, the Committee has been restructured to form an Audit Committee comprised of all Directors and chaired by Caroline Ramsay and a separate Management Engagement Committee, also comprised of all Directors and chaired by Tim Scholefield. Therefore, these Committees will report separately to shareholders in the future.

For and on behalf of the Committee.

Caroline Ramsay
Chairman

23 August 2018

Governance

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 its profit or loss 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- ▶ assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- ▶ use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Statement of Corporate Governance 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; and
- ▶ the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Allister Langlands
Chairman

23 August 2018

Financial Statements

Independent Auditor's Report to the Members of Standard Life UK Smaller Companies Trust plc

1 Our opinion is unmodified

We have audited the financial statements of Standard Life UK Smaller Companies Trust plc ("the Company") for the year ended 30 June 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of its return for the year then ended;
- ▶ have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Management Engagement Committee.

We were first appointed as auditor by the shareholders on 26 October 2017. This is the first year of engagement. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Carrying amount of quoted investments (£424.2 million; 2017 £329.6 million)	Low risk, high value	Our procedures included:
<i>Refer to page 42 (Audit and Management Engagement Committee Report), page 53 (accounting policy) and page 59 (financial disclosures).</i>	The Company's portfolio of quoted investments makes up 97% of the company's total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	<p>▶ Tests of detail: Agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices; and</p> <p>▶ Enquiry of custodians: Agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians.</p> <p>Our results: We found the carrying amount of quoted investments to be acceptable.</p>

Financial Statements

Independent Auditor's Report to the Members of Standard Life UK Smaller Companies Trust plc

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4,353,000, determined with reference to a benchmark of total assets, of which it represents 1%

We agreed to report to the Audit and Management Engagement Committee any uncorrected identified misstatements exceeding £218,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at KPMG LLP in Glasgow.

4 We have nothing to report on going concern

We are required to report to you if:

- ▶ we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- ▶ if the related statement under the Listing Rules set out on page 30 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- ▶ we have not identified material misstatements in the strategic report and the Directors' report;
- ▶ in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- ▶ in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- ▶ the Directors' confirmation within the viability statement on page 30 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- ▶ the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- ▶ the Directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- ▶ we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- ▶ the section of the annual report describing the work of the Audit and Management Engagement Committee does not appropriately address matters communicated by us to the Audit and Management Engagement Committee.

We have nothing to report in these respects.

Financial Statements

Independent Auditor's Report to the Members of Standard Life UK Smaller Companies Trust plc

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 45, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities - ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

23 August 2018

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	2018			2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value	9	-	73,456	73,456	-	84,529	84,529
Income	2	6,765	-	6,765	5,712	-	5,712
Investment management fee	3	(770)	(2,309)	(3,079)	(625)	(1,874)	(2,499)
Other administrative expenses	4	(722)	-	(722)	(569)	(16)	(585)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		5,273	71,147	76,420	4,518	82,639	87,157
Finance costs	5	(207)	(622)	(829)	(180)	(540)	(720)
RETURN BEFORE TAXATION		5,066	70,525	75,591	4,338	82,099	86,437
Taxation	6	-	-	-	-	-	-
RETURN AFTER TAXATION		5,066	70,525	75,591	4,338	82,099	86,437
RETURN PER ORDINARY SHARE:							
BASIC	8	7.24p	100.82p	108.06p	6.42p	121.50p	127.92p
DILUTED	8	7.00p	95.94p	102.94p	6.07p	111.60p	117.67p

The total column of this statement represents the profit and loss account of the Company. The 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the Financial Statements.

Financial Statements

Statement of Financial Position

As at 30 June 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
NON-CURRENT ASSETS					
Investments held at fair value through profit or loss	9		424,194		329,587
CURRENT ASSETS					
Debtors	10	1,161		964	
Investments in AAA-rated money market funds		9,559		7,371	
Cash and short term deposits		415		247	
		11,135		8,582	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	11	(2,265)		(1,028)	
3.5% Convertible Unsecured Loan Stock 2018	12	-		(13,125)	
		(2,265)		(14,153)	
NET CURRENT ASSETS/(LIABILITIES)			8,870		(5,571)
TOTAL ASSETS LESS CURRENT LIABILITIES			433,064		324,016
Creditors: amounts falling due after more than one year					
Bank loan	13	(24,790)		-	
			(24,790)		-
NET ASSETS			408,274		324,016
CAPITAL AND RESERVES					
Called-up share capital	14		19,071		17,907
Share premium account			29,693		19,805
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	12		-		1,470
Special reserve			36,311		34,109
Capital reserve			314,924		244,399
Revenue reserve			8,275		6,326
EQUITY SHAREHOLDERS' FUNDS			408,274		324,016
NET ASSET VALUE PER ORDINARY SHARE:					
BASIC	15		552.93p		474.74p
DILUTED	15		552.93p		456.60p

The Financial Statements on pages 49 to 66 were approved by the Board of Directors on 23 August 2018 and were signed on its behalf by:

Allister Langlands, Chairman

The accompanying notes are an integral part of the Financial Statements.

Financial Statements

Statement of Changes in Equity

For the year ended 30 June 2018

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2017	17,907	19,805	1,470	34,109	244,399	6,326	324,016
Return after taxation	-	-	-	-	70,525	5,066	75,591
Issue of Ordinary Shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018 (see note 12)	-	-	-	2,202	-	-	2,202
Issue of Ordinary Shares from maturity of 3.5% Convertible Unsecured Loan Stock 2018 (see note 12)	1,164	9,888	(1,470)	-	-	1,470	11,052
Dividends paid (see note 7)	-	-	-	-	-	(4,587)	(4,587)
BALANCE AT 30 JUNE 2018	19,071	29,693	-	36,311	314,924	8,275	408,274

For the year ended 30 June 2017

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2016	17,907	19,805	1,470	32,645	162,300	6,502	240,629
Return after taxation	-	-	-	-	82,099	4,338	86,437
Share Buybacks (see note 14)	-	-	-	(1,544)	-	-	(1,544)
Issue of Ordinary Shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018 (see note 12)	-	-	-	3,008	-	-	3,008
Dividends paid (see note 7)	-	-	-	-	-	(4,514)	(4,514)
BALANCE AT 30 JUNE 2017	17,907	19,805	1,470	34,109	244,399	6,326	324,016

The capital reserve at 30 June 2018 is split between realised of £108,543,000 and unrealised of £206,381,000 (30 June 2017: realised £91,051,000 and unrealised £153,348,000).

The revenue reserve and realised element of the capital reserve represents the amount of the Company's retained reserves distributable by way of dividend.

The accompanying notes are an integral part of the Financial Statements.

Financial Statements

Statement of Cash Flows

For the year ended 30 June 2018

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION	76,420	87,157
Adjustment for:		
Net gains on investments	(73,456)	(84,529)
Movement in dividend income receivable	(199)	298
Movement in interest income receivable	(7)	3
Decrease in other debtors	(2)	-
Increase in other creditors	157	105
Decrease in overseas withholding tax	-	25
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,913	3,059
INVESTING ACTIVITIES		
Purchases of investments	(70,819)	(56,623)
Sales of investments	50,777	60,557
Purchases of AAA-rated money market funds	(68,936)	(58,059)
Sales of AAA-rated money market funds	66,748	57,919
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(22,230)	3,794
FINANCING ACTIVITIES		
Bank and loan interest paid	(928)	(554)
Repurchase of Ordinary Shares	-	(1,544)
Drawdown of loan	25,000	-
Dividends paid	(4,587)	(4,514)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	19,485	(6,612)
INCREASE IN CASH	168	241
ANALYSIS OF CHANGES IN CASH DURING THE YEAR		
Opening balance	247	6
Increase in cash as above	168	241
CLOSING BALANCE	415	247

The accompanying notes are an integral part of the Financial Statements.

Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2018

1. Accounting policies

(a) Basis of accounting

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in February 2018 with consequential amendments. They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Financial Statements have been prepared on a going concern basis. The Directors believe that the Company has adequate financial resources to continue its operational existence for a period of not less than 12 months from the date of approval of the Financial Statements.

(b) Investments

Investments have been designated upon initial recognition as fair value through profit or loss in accordance with IAS 39. As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments (as adopted for use in the EU). This is done because all investments are considered to form part of a group of financial assets which is evaluated on a fair value basis, in accordance with the Company's documented investment strategy, and information about the grouping is provided internally on that basis.

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 initially at fair value. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from the London Stock Exchange.

Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Statement of Comprehensive Income and are ultimately recognised in the capital reserve.

(c) AAA-rated money market funds

The AAA-rated money market funds are used by the Company to provide additional short-term liquidity. Due to their short-term nature, they are recognised in the Financial Statements as a current asset and are included at fair value through profit and loss.

(d) Income

Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to revenue or capital in the Statement of Comprehensive Income, according to the circumstances of the underlying payment. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short-term deposits and money market funds is accounted for on an accruals basis.

(e) Expenses and interest payable

Expenses are accounted for on an accruals basis. Expenses are charged to the capital column of the Statement of Comprehensive Income when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated 25% to revenue and 75% to the capital columns of the Statement of Comprehensive Income in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see notes 3 and 5).

Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Statement of Comprehensive Income.

(f) Dividends payable

Dividends are recognised in the period in which they are paid.

(g) Capital reserve

Gains and losses on realisation of investments and changes in fair values which are readily convertible to cash, without accepting adverse terms, are transferred to the capital reserve. This reserve also includes gains and losses from foreign currency exchange differences. Additionally, expenses, including finance costs, are charged to this reserve in accordance with (e) above.

Financial Statements

Notes to the Financial Statements

Revenue reserve

This reserve reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income.

(h) Taxation

Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expenses 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 have been enacted or substantively enacted by the year end date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the year end date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the year end date measured on an undiscounted basis and based on enacted tax rates. 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 underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.

Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

(i) Other reserves

The special reserve arose following court approval for the cancellation of the share premium account balance at 24 June 1999 and on 13 October 2009, Court of Session approval was granted for the cancellation of the Company's entire share premium account and capital redemption reserve and subsequent creation of a special distributable capital reserve.

(j) Foreign currency

Non-monetary assets and liabilities denominated in foreign currency carried at fair value through profit or loss are converted into Sterling at the rate of exchange ruling at the year end date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Statement of Comprehensive Income.

(k) 3.5% Convertible Unsecured Loan Stock 2018

Convertible Unsecured Loan Stock (CULS) issued by the Company were regarded as a compound instrument, comprising a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated by assuming that an equivalent non-convertible obligation of the Company would have a coupon rate of 4.83%. The fair value of the equity component, representing the option to convert liability into equity, was derived from the difference between the issue proceeds of the CULS and the fair value assigned to the liability. The liability component was subsequently measured at amortised cost using the effective interest rate and the equity component remained unchanged.

The interest expense on the CULS was calculated according to the effective interest rate method by applying the assumed rate of 4.83% at initial recognition to the liability component of the instrument.

On conversion of any CULS, equity was issued and the liability component was derecognised. The original equity component recognised at inception remained in equity. No gain or loss was recognised on conversion.

When any CULS were repurchased for cancellation, the fair value of the liability at the redemption date was compared to its carrying amount, giving rise to a gain or loss on redemption that was recognised through profit or loss. The amount of consideration allocated to equity was recognised in equity with no gain or loss being recognised.

On maturity of the remaining CULS on 31 March 2018, equity was issued and the liability component was derecognised. The original equity component recognised at inception was removed from equity. All gains and losses were recognised on maturity.

Financial Statements

Notes to the Financial Statements

(l) Judgements and key sources of estimation uncertainty

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the Financial Statements. There are no significant estimates of judgement which impact these Financial Statements.

(m) Cash and cash equivalents

Cash comprises bank balances and cash held by the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Bank borrowing

Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the straight line method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2. Income

	2018 £'000	2017 £'000
Income from investments		
UK dividend income	5,113	4,628
Overseas dividend income	1,117	789
Special dividends	489	269
	6,719	5,686
Other income		
Interest from AAA-rated money market funds	46	26
	46	26
Total income	6,765	5,712

3. Investment management fee

	2018 £'000	2017 £'000
Investment management fee	3,079	2,499
Charged to capital reserve	(2,309)	(1,874)
	770	625

The balance due to Standard Life Investments (Corporate Funds) Limited at the year end was £829,000 (2017: £673,000).

For further details see note 19 Transactions with the Manager.

Financial Statements

Notes to the Financial Statements

4. Administrative expenses (inclusive of VAT)

	2018 £'000	2017 £'000
Secretarial fees	180	180
Directors' fees	104	104
Auditor's remuneration:		
fees payable to the Company's auditor for the audit of the Company's annual accounts excluding VAT	22	–
Outgoing auditor	–	22
VAT on audit fees	4	4
Registrar's fees	40	33
Professional fees	95	58
Custody fees	17	15
Depository fees	73	58
Other expenses	187	95
	722	569

The balance due to the Company Secretary at the year end was £44,593 (2017: £44,877).

There were no capital expenses incurred in 2018 (2017: £16,000).

The increase in Professional fees is attributable to costs associated with the maturity of the 3.5% Convertible Unsecured Loan Stock 2018 (CULS), arranging the new loan facility application and the recruitment of a new Non-Executive Director.

Other expenses in 2018 includes £39,000 relating to the issue of new shares arising as a result of the maturity of the CULS and in 2017 included a credit of £50,000 in relation to prior year accruals for marketing expenditure.

5. Finance costs

	2018 £'000	2017 £'000
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	292	546
Effective interest rate	75	102
Amortisation of 3.5% Convertible Unsecured Loan Stock 2018 issue expenses	54	72
Bank loan interest	317	–
Non-utilisation fees	71	–
Amortisation of loan arrangement expenses	20	–
	829	720
Charged to capital reserve	(622)	(540)
Charged to revenue reserve	207	180

Financial Statements

Notes to the Financial Statements

6. Taxation

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(a) Analysis of charge for year						
Overseas taxation	–	–	–	–	–	–

(b) Provision for deferred taxation

At 30 June 2018, the Company had unutilised management expenses and loan relationship losses of £56,035,000 (2017: £52,059,000). No deferred asset has been recognised on the unutilised management expenses and loan relationship losses as it is unlikely there will be suitable taxable profits from which the future reversal of the deferred asset could be deducted.

(c) Factors affecting current tax charge for year

UK corporation tax at a rate of 19.00% (2017: effective rate 19.75%)

The differences are explained below.

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net profit on ordinary activities before taxation	5,066	70,525	75,591	4,338	82,099	86,437
Corporation tax at a rate of 19.00% (2017: effective rate 19.75%)	962	13,400	14,362	857	16,215	17,072
Effects of:						
Non-taxable UK dividend income	(1,068)	–	(1,068)	(944)	–	(944)
Non-taxable overseas dividends	(114)	–	(114)	(120)	–	(120)
Expenses not deductible for tax purposes	1	–	1	–	–	–
Excess management expenses and loan relationship losses	219	557	776	207	477	684
Other capital returns (e.g. gains on investments not subject to tax)	–	(13,957)	(13,957)	–	(16,692)	(16,692)
Total tax charge	–	–	–	–	–	–

7. Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the period:		
2017 final dividend of 5.20p per share (2016: 5.20p) paid on 30 October 2017	3,549	3,504
2018 interim dividend of 1.50p per share (2017: 1.50p) paid on 6 April 2018	1,038	1,010
	4,587	4,514

The proposed 2018 final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements.

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 1158 - 1159 of the Corporation Taxes Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £5,066,000 (2017: £4,338,000).

Financial Statements

Notes to the Financial Statements

	2018 £'000	2017 £'000
2018 interim dividend of 1.50p per share (2017 - 1.50p) paid on 6 April 2018	1,038	1,010
2018 final dividend of 5.50p per share (2017 - 5.20p) payable on 31 October 2018	4,049	3,549
	5,087	4,559

The amount payable for the proposed final dividend is based on the Ordinary Shares in issue as the date of approval of this report, 23 August 2018, which satisfies the requirement of Section 1159 Corporation Tax Act 2010.

Dividends have been paid out of revenue reserves.

8. Return per ordinary share

	2018		2017	
	p	£'000	p	£'000
Basic				
Revenue return	7.24	5,066	6.42	4,338
Capital return	100.82	70,525	121.50	82,099
Total return	108.06	75,591	127.92	86,437
Weighted average number of Ordinary Shares in issue		69,951,113		67,569,244
Diluted				
Revenue return	7.00	5,171	6.07	4,487
Capital return	95.94	70,841	111.60	82,545
Total return	102.94	76,012	117.67	87,032
Weighted average number of Ordinary Shares in issue		73,837,630		73,965,603

The calculation of the diluted total, revenue and capital returns per Ordinary Share are carried out in accordance with IAS 33. For the purpose of calculating total, revenue and capital returns per Ordinary Share, the number of Ordinary Shares used is the weighted average number used in the basic calculation plus the number of Ordinary Shares deemed to be issued for no consideration on exercise of all 3.5% Convertible Unsecured Loan Stock 2018 (CULS) pro-rated for the period in which the CULS were active. The calculations indicate that the exercise of CULS would result in an increase in the weighted average number of Ordinary Shares of 3,886,517 (2017: 6,396,359) to 73,837,630 (2017: 73,965,603) Ordinary Shares.

Where dilution occurs, the net returns are adjusted for items relating to the CULS. Total earnings for the period are tested for dilution. Once dilution has been determined individual revenue and capital earnings are adjusted. CULS finance costs for the period £367,000 (2017: £648,000) and previously unamortised issues expenses £54,000 (2017: £53,000) are reversed.

Financial Statements

Notes to the Financial Statements

9. Investments

	2018 £'000	2017 £'000
Fair value through profit or loss		
Opening fair value	329,587	248,945
Opening fair value gains on investments held	(153,348)	(87,267)
Opening book cost	176,239	161,678
Additions at cost	71,918	56,680
Disposals - proceeds	(50,767)	(60,567)
- realised gains on sales	20,422	18,448
Closing book cost	217,812	176,239
Closing fair value gains on investments held	206,382	153,348
Closing fair value	424,194	329,587
Gains on investments		
Realised gains on sales	20,422	18,448
Increase in fair value gains on investments held	53,034	66,081
Net gains on investments held at fair value	73,456	84,529

All investments are equity shares listed on the London Stock Exchange.

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 gains on investments in the Statement of Comprehensive Income. The total costs were as follows:

	2018 £'000	2017 £'000
Purchases	263	212
Sales	41	48
	304	260

10. Debtors

	2018 £'000	2017 £'000
Amounts due from brokers	–	10
Dividends receivable	1,133	934
Tax recoverable	6	6
Other debtors	22	14
	1,161	964

Financial Statements

Notes to the Financial Statements

11. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Amounts payable to brokers	1,155	57
Interest payable	97	134
Investment management fee payable	829	673
Sundry creditors	184	164
	2,265	1,028

12. 3.5% Convertible Unsecured Loan Stock 2018

	Nominal amount £'000	Liability Component £'000	Equity Component £'000
As at 30 June 2018			
Opening balance	13,254	13,125	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(2,202)	(2,202)	–
Maturity of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(11,052)	(11,052)	(1,470)
Effective interest rate adjustments on 3.5% Convertible Unsecured Loan Stock 2018	–	75	–
Amortisation	–	54	–
Closing balance	–	–	–

	Nominal amount £'000	Liability Component £'000	Equity Component £'000
As at 30 June 2017			
Opening balance	16,277	15,959	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(3,023)	(3,008)	–
Effective interest rate adjustments on 3.5% Convertible Unsecured Loan Stock 2018	–	102	–
Amortisation	–	72	–
Closing balance	13,254	13,125	1,470

On 8 October 2017 the Company converted £2,201,462 (10 October 2016: £898,071) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 927,892 (2017: 378,514) Ordinary Shares. Also on 11 April 2018 (13 April 2017) the Company converted £11,052,427 (2017: £2,124,852) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 4,658,405 (2017: 895,583) Ordinary Shares following the maturity date 31 March 2018.

As at 30 June 2018, there was £nil (2017: £13,253,889) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 in issue. The loan stock was previously converted at the election of holders into Ordinary Shares during the months of March and September each year throughout their life up until 31 March 2018 at a fixed price per Ordinary Share of 237.2542p. Interest was paid on the 3.5% Convertible Unsecured Loan Stock 2018 on 30 September and 31 March each year.

Financial Statements

Notes to the Financial Statements

13. Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Bank loan	25,000	-
Unamortised loan arrangement expenses	(210)	-
	24,790	-

During the year the Company entered into a £45 million unsecured loan facility agreement arranged with Royal Bank of Scotland International Ltd. The facilities consist of a five year fixed-rate term loan facility of £25 million (the "Term Loan") and a five year revolving credit facility of £20 million (the "RCF"). The Term Loan has a maturity date of 31 October 2022 and the RCF has a maturity date of 12 September 2018.

The Company had drawn down £10 million of the Term Loan on 1 November 2017, at an interest rate of 2.349%. On 10 April 2018, the Company had drawn down a further £15 million of the Term Loan, also at an interest rate of 2.349%. £15 million of the RCF was drawn between 12 December 2017 and 11 April 2018. The RCF was undrawn at the year end.

The terms of the unsecured loan facility agreement contain covenants that the minimum net asset must not be less than £140 million, the percentage of borrowings against the nets assets shall not exceed 30%, and the portfolio contains a minimum of thirty eligible investments (investments made in accordance with the Company's investment policy).

The fair value of the Term Loan as at 30 June 2018 was £26,467,000, the value being calculated per the disclosure in note 18.

14. Called up share capital

	2018 £'000	2017 £'000
Authorised:		
	37,500	37,500
Issued and fully paid:		
73,837,630 (2017 – 68,251,333) Ordinary Shares of 25p each - equity	18,459	17,063
Held in treasury:		
2,447,950 (2017 - 3,375,842) Ordinary Shares of 25p each - equity	612	844
	19,071	17,907

	2018 Ordinary Shares Number	2017 Ordinary Shares Number
Opening balance	68,251,333	67,421,054
Conversion of CULS	5,586,297	1,274,097
Share buybacks	-	(443,818)
Closing balance	73,837,630	68,251,333

During the year the Company issued 927,892 Ordinary Shares from Treasury following the receipt of elections to convert by holders of the Company's 3.5% Convertible Unsecured Loan Stock 2018 in October 2017. The Company also issued 4,658,405 new Ordinary Shares following the maturity of the Company's 3.5% Convertible Unsecured Loan Stock 2018 in April 2018.

During the year the Company repurchased nil (2017: 443,818) Ordinary Shares to Treasury.

Financial Statements

Notes to the Financial Statements

15. Net asset value per share

Total shareholders' funds have been calculated in accordance with the provisions of applicable accounting standards. The analysis of total shareholders' funds on the face of the Statement of Financial Position reflects the rights, under the Articles of Association, of the ordinary shareholders on a return of assets.

	2018	2017
Net asset value per share		
Net assets attributable (£'000s)	408,274	324,016
Number of Ordinary Shares in issue at year end (excluding shares held in treasury)	73,837,630	68,251,333
Net asset value per share	552.93p	474.74p
Diluted net asset value per share		
Net assets attributable (£'000)	408,274	337,141
Potential number of Ordinary Shares in issue at year end (excluding shares held in treasury)	73,837,630	73,837,699
Diluted net asset value per share	552.93p	456.60p

16. Financial instruments

The Company's financial instruments comprise securities and other investments, cash balances, loans and 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 also has the ability to enter into derivative transactions for the purpose of managing currency and market risks arising from the Company's activities. No such transactions took place during the year.

The main risks the Company faces from its financial instruments are (i) market price risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk. There was no material currency risk to the Company for the period.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors, other than for currency disclosures due to materiality.

(i) Market price 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 three elements - interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:

- ▶ the level of income receivable on cash deposits and money market funds;
- ▶ interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

It is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed funds are invested in equities, the effect is to magnify the impact on shareholders' funds of changes - both positive and negative - in the value of the portfolio.

As at 30 June 2018, the Company had drawn down £25 million (2017: £nil) of the £45 million (2017: £nil) unsecured loan facility agreement arranged with Royal Bank of Scotland International Ltd. The facilities consist of a five year fixed-rate term loan facility of £25 million and a five year revolving credit facility of £20 million.

The 3.5% Convertible Unsecured Loan Stock 2018 was issued by the Company at a fixed cost until its maturity. It was carried in the Company's Statement of Financial Position at amortised cost rather than at fair value.

Financial Statements

Notes to the Financial Statements

Interest risk profile

The interest rate risk profile of the portfolio of financial assets and liabilities at the year end date was as follows:

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
As at 30 June 2018				
<i>Assets</i>				
AAA-rated money market funds	-	0.62	-	9,559
Cash deposits	-	-	-	415
Total assets	-	-	-	9,974
<i>Liabilities</i>				
Bank loan	4.33	2.35	25,000	-
Total liabilities	-	-	25,000	-

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
As at 30 June 2017				
<i>Assets</i>				
AAA-rated money market funds	-	0.34	-	7,371
Cash deposits	-	-	-	247
Total assets	-	-	-	7,618
<i>Liabilities</i>				
3.5% Convertible Unsecured Loan Stock 2018	0.75	3.50	13,125	-
Total liabilities	-	-	13,125	-

The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

The floating rate assets consist of AAA-rated money market funds and cash deposits on call earning interest at prevailing market rates.

All financial liabilities are measured at amortised cost.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the year end date and with 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 or lower and all other variables were held constant, the Company's :

- ▶ profit for the year ended 30 June 2018 and net assets would increase / decrease by £100,000 (2017: increase / decrease by £76,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and money market funds.

Other price risk

Other price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

Financial Statements

Notes to the Financial Statements

It is the Board'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 and the stock selection process, as detailed on pages 12 and 13, 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. The investments held by the company are mainly listed on the London Stock Exchange.

Other price risk sensitivity

If market prices at the year end date had been 10% higher or lower while all other variables remained constant, the return attributable to ordinary shareholders for the year ended 30 June 2018 would have increased / decreased by £42,419,000 (2017: increase / decrease of £32,959,000). This is based on the Company's equity portfolio held at each year end.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

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. The maturity of the Company's existing borrowings is set out in the credit risk profile section of this note.

	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
As at 30 June 2018				
Bank loan	27,548	148	439	26,961
3.5% Convertible Unsecured Loan Stock 2018	-	-	-	-
	27,548	148	439	26,961

	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
As at 30 June 2017				
3.5% Convertible Unsecured Loan Stock 2018	13,717	232	13,485	-
	13,717	232	13,485	-

(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.

The risk is not significant and is managed as follows:

- ▶ where the investment 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;
- ▶ investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment 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 monthly basis. In addition, both stock and cash reconciliations to the Custodians' records are performed on a daily basis to ensure discrepancies are investigated on a timely basis.
- ▶ 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.

Financial Statements

Notes to the Financial Statements

Credit risk exposure

In summary, compared to the amounts in the Statement of Financial Position, the maximum exposure to credit risk at 30 June was as follows:

	2018		2017	
	Statement of Financial Position £'000	Maximum exposure £'000	Statement of Financial Position £'000	Maximum exposure £'000
Current assets				
Debtors	1,161	1,161	964	964
AAA-rated money market funds	9,559	9,559	7,371	7,371
Cash and short term deposits	415	415	247	247
	11,135	11,135	8,582	8,582

None of the Company's financial assets is past due or impaired.

17. Capital Management

The investment objective of the Company is to achieve long-term capital growth by investment in UK quoted smaller companies.

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 Company's capital comprises the following:

	2018 £'000	2017 £'000
Equity		
Equity share capital	19,071	17,907
Reserves	389,203	306,109
Liabilities		
Bank loan	24,790	-
3.5% Convertible Unsecured Loan Stock 2018	-	13,125
	433,064	337,141

The Company's gearing comprises of the following:

	2018 £'000	2017 £'000
3.5% Convertible Unsecured Loan Stock 2018	-	13,125
Bank loan	24,790	-
Cash and AAA-rated money market funds	(9,974)	(7,618)
Net debt	14,816	5,507
Net assets	408,274	324,016
Gearing (%)	3.6	1.7

Financial Statements

Notes to the Financial Statements

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;
- ▶ 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.

18. Fair Value hierarchy

FRS 102 requires an entity to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications.

- ▶ Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.
- ▶ Level 2: inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- ▶ Level 3: inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (2017 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (2018: £424,194,000; 2017: £329,587,000) have therefore been deemed as Level 1.

The Company's 3.5% Convertible Unsecured Loan Stock 2018 were actively traded on a recognised stock exchange. The fair value of the CULS (2018: £Nil; 2017: £22,267,000) was therefore deemed Level 1 prior to maturity.

The fair value of borrowings as at 30 June 2018 has been estimated at £26,467,000 (carrying value per Statement of Financial Position: £24,790,000) using the interest rate swap valuation technique. Under the fair value hierarchy in accordance with FRS 102, these borrowings can be classified at Level 2.

19. Transactions with the Manager

The Company has an agreement with Standard Life Investments (Corporate Funds) Limited ('SLI') for the provision of management services.

The fee is chargeable 25% to revenue and 75% to capital. The management fee has been charged applying the rate of 0.85% to the first £250m of total assets, reduced to 0.65% on total assets above this threshold. The contract is terminable by either party on six months' notice.

20. Related party transactions

Standard Life Investments (Corporate Funds) Limited received fees for its services as Investment Manager and Company Secretary. Company Secretarial and Administrative services are provided by Maven Capital Partners UK LLP under a separate agreement with the Manager. Further details are provided in notes 3 & 4. The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on pages 33 to 35. The Directors' shareholdings are detailed on page 35.

Additional Information

Glossary

Discount and Premium	A discount is the percentage by which the market price of an investment trust is lower than the Net Asset Value per share. A premium is the percentage by which the market price per share of an investment trust exceeds the Net Asset Value per share.
Dividend cover	For investment trusts, this is calculated as the value of year end Revenue Reserves, after adjusting for any unpaid final dividends, divided by the total cost of dividends paid by the Company to shareholders. A figure of 1 implies that the Company would be able to pay next years' dividend even if all the portfolio holdings did not pay any dividend.
Dividend Per Share (DPS)	The total of all dividends paid by the Company over the year per share.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Earnings Per Share (EPS)	The net income after tax of the Company divided by the weighted average number of shares in issue during the year. In an investment trust this is made up of Revenue EPS and Capital EPS.
Ex-dividend date (XD date)	The day before the Record date. The XD date is normally about a month before the dividend is paid.
Index or indices	A market index calculates the average performance of its constituents, normally on a weighted basis. It provides a means of assessing the overall state of the economy and provides a comparison against which the performance of individual instruments can be assessed.
Market Capitalisation (Market Cap)	The latest price of an Ordinary Share multiplied by the number of shares in issue.
Net Asset Value per share (NAV)	Net Assets divided by the number of Ordinary Shares in issue produces the Net Asset Value per share.
Net Assets or Shareholders' Funds	Total assets less current and long-term liabilities.
Net Gearing	Net borrowings (both short and long-term, less cash held in the portfolio) as a percentage of shareholders' funds.
Ongoing Charges	Ongoing Charges are the Company's total expenses as a percentage of average daily shareholders' funds. Formally referred to as TER (Total Expense Ratio).
Realised gains / losses	The profit / loss on the sale of investments during the year.
Record date	The date when an investor needs to be holding a share in order to qualify for a forthcoming dividend.
Revenue EPS	The net income from dividends and interest received, after tax, of the Company divided by the weighted average number of shares in issue during the year.
Revenue Reserves	The total of undistributed revenue earnings from prior years. This is available for distribution to shareholders by way of dividend.
Total Return	The theoretical return including reinvesting each dividend in additional shares in the Company on the day that the shares go ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the ex-dividend date.
Unrealised gains / losses	The profit / loss on the revaluation of the investment portfolio at the end of the period.

Additional Information

Company's History

The Company's authorised share capital on incorporation was £15,000,000, divided into 60,000,000 Ordinary Shares of 25 pence each. On 19 August 1993, 50,000,000 Ordinary Shares (with one warrant attached for every five Ordinary Shares) were issued at £1 each. On 25 March 1994, the authorised share capital of the Company was increased to £75,000,000 by the creation of 50,000,000 limited Conversion ("C") shares of £1 each and 40,000,000 Ordinary Shares of 25 pence each. On 28 March 1994, a further 21,428,000 'C' shares were issued at £1 each, at par. On 7 June 1994, the C shares of £1 each were converted into Ordinary Shares, resulting in the issue of 19,436,770 Ordinary Shares (with one warrant for every five Ordinary Shares).

On 9 November 2006, shareholders approved a tender offer to buy back and cancel 32.6 million Ordinary Shares and 117,791 of the Company's warrants in issue. In the year ended 30 June 2007, the Company also bought back and cancelled an additional 2,194,000 Ordinary Shares. During the year ended 30 June 2008, 559,175 Ordinary Shares were bought back into treasury by the Company.

On 14 October 2008, 1,164,545 warrants were exercised as a result of the last exercise date of the warrants on 30 September 2008, which resulted in the issue of the same number of Ordinary Shares by the Company. A total of 1,732,965 warrants lapsed without value on 14 October 2008.

On 4 February 2009, as part of the merger with Gartmore Smaller Companies Trust p.l.c. ("Gartmore"), 31,189,825 Conversion ("C") shares were issued to former Gartmore shareholders. On 14 April 2009, 27,545,948 of the C shares were converted into 26,273,612 Ordinary Shares. On 11 June 2009, the remaining 3,643,877 C shares were converted into 3,687,639 Ordinary Shares.

During the year ended 30 June 2011, the Company bought back 3.7 million Ordinary Shares into treasury and sold 4.2 million Ordinary Shares from treasury. The Company also issued £25 million nominal of 3.5% Convertible Unsecured Loan Stock 2018 ("CULS") and 825,000 new Ordinary Shares during the year.

During the year ended 30 June 2012, 425,000 new Ordinary Shares were issued under the Company's general block listing authority from 28 March 2011. In addition, in October 2011 22,003 new Ordinary Shares were issued as a result of the first conversion of CULS as at 30 September 2011. A further 5,346 new Ordinary Shares were issued in April 2012 as a result of the second conversion of CULS as at 31 March 2012.

During the year ended 30 June 2013, a total of 1,666,083 new Ordinary Shares were issued under the block listing authority. This included 4,679 new Ordinary Shares issued as a result of the third conversion of CULS as at 30 September 2012, and 11,404 new Ordinary Shares issued as a result of the fourth conversion of CULS as at 31 March 2013.

On 3 January 2014, the Company was granted a new blocklisting of 3,370,000 Ordinary Shares of 25 pence each. This blocklisting may only be used to issue new shares to satisfy demand that cannot be satisfied in the secondary market.

During the year ended 30 June 2014, the Company issued a total of 4,717,598 new Ordinary Shares. This included 1,038,382 new Ordinary Shares issued as a result of the fifth conversion of CULS as at 30 September 2013 and 779,216 new Ordinary Shares issued as a result of the sixth conversion of CULS as at 31 March 2014.

During the year ended 30 June 2015, the Company issued a total of 342,169 Ordinary Shares. This included 243,589 new Ordinary Shares issued as a result of the seventh conversion of CULS as at 30 September 2014 and 98,580 Ordinary Shares issued from treasury as a result of the eighth conversion of CULS as at 31 March 2015. During the year ended 30 June 2015, 2,307,155 Ordinary Shares were bought back by the Company and held in treasury.

During the year ended 30 June 2016, following the 30 June 2015 tender offer which completed on 28 July 2015, a total of 3,470,930 Ordinary Shares were tendered and bought back into treasury. The Company issued a total of 1,473,384 Ordinary Shares from treasury. This issue comprised 669,513 Ordinary Shares issued from treasury as a result of the ninth conversion of CULS as at 30 September 2015 and 803,871 Ordinary Shares issued from treasury as a result of the tenth conversion of CULS as at 31 March 2016.

During the year ended 30 June 2017, the Company bought back 443,818 Ordinary Shares into treasury. The Company also issued a total of 1,274,097 Ordinary Shares from treasury. This issue comprised 378,514 Ordinary Shares issued from treasury as a result of the eleventh conversion of CULS as at 30 September 2016 and 895,583 Ordinary Shares issued from treasury as a result of the twelfth conversion of CULS as at 31 March 2017.

During the year ended 30 June 2018, the Company issued a total of 927,892 Ordinary Shares from treasury as a result of the thirteenth conversion of CULS as at 30 September 2017. The Company also issued 4,658,405 new Ordinary Shares as a result of the final conversion of CULS as at 31 March 2018.

As at 30 June 2018 there were 73,837,630 Ordinary Shares in issue, with voting rights and 2,447,950 Ordinary Shares held in treasury.

Since the year end the Company has bought back 210,574 Ordinary Shares into treasury. Accordingly, as at the date of this Annual Report there were 73,627,056 Ordinary Shares in issue with voting rights and 2,658,524 Ordinary Shares held in treasury.

Additional Information

Company's History

Year ended 30 June	Ordinary shares bought back for cancellation	Ordinary shares bought back into treasury	Issued from treasury	Ordinary shares issued	Ordinary shares in issue (excluding treasury shares)	Convertible Unsecured Loan Stock Issued	Convertible Unsecured Loan Stock Exercised	Convertible Unsecured Loan Stock Total	Warrants exercised	Warrants bought back	Warrants lapsed	Total Warrants in issue
1994	-	-	-	-	69,436,770	-	-	-	-	-	-	13,886,996
1995	-	-	-	-	69,525,796	-	-	-	89,026	-	-	13,797,970
1996	-	-	-	-	69,527,676	-	-	-	1,880	-	-	13,796,090
1997	-	-	-	-	69,528,656	-	-	-	980	1,592,201	-	12,202,909
1998	-	-	-	-	69,529,717	-	-	-	1,061	6,075,144	-	6,126,704
1999	-	-	-	-	69,530,267	-	-	-	550	1,350,000	-	4,776,154
2000	-	-	-	-	69,543,990	-	-	-	13,723	1,671,143	-	3,091,288
2001	-	-	-	-	69,601,685	-	-	-	57,695	-	-	3,033,593
2002	2,200,000	-	-	-	67,403,646	-	-	-	1,961	-	-	3,031,632
2003	-	-	-	-	67,403,646	-	-	-	-	-	-	3,031,632
2004	-	-	-	-	67,403,646	-	-	-	-	-	-	3,031,632
2005	-	-	-	-	67,404,646	-	-	-	1,000	-	-	3,030,632
2006	-	-	-	-	67,404,746	-	-	-	100	-	-	3,030,532
2007	34,823,217	-	-	-	32,583,790	-	-	-	2,261	117,791	-	2,910,480
2008	-	559,175	-	-	32,037,585	-	-	-	12,970	-	-	2,897,510
2009	-	-	-	29,961,251	63,163,381	-	-	-	1,164,545	-	1,732,965	-
2010	-	-	-	-	63,163,381	-	-	-	-	-	-	-
2011	-	3,670,243	4,229,418	825,000	64,547,556	£25,000,000	-	£25,000,000	-	-	-	-
2012	-	-	-	452,349	64,999,905	-	£64,929	£24,935,071	-	-	-	-
2013	-	-	-	1,650,000	66,665,988	-	£38,184	£24,896,887	-	-	-	-
2014	-	-	-	4,717,598	71,383,586	-	£4,312,437	£20,584,450	-	-	-	-
2015	-	2,307,155	98,580	243,589	69,418,600	-	£811,868	£19,772,582	-	-	-	-
2016	-	3,470,930	1,473,384	-	67,421,054	-	£3,495,770	£16,276,812	-	-	-	-
2017	-	443,818	1,274,097	-	68,251,333	-	£3,022,923	£13,253,889	-	-	-	-
2018	-	-	927,892	4,658,405	73,837,630	-	£13,253,889	-	-	-	-	-

Additional Information

Key Contacts

Directors

Allister Langlands (Chairman)
Ashton Bradbury
Carol Ferguson
Caroline Ramsay
Tim Scholefield

Investment Manager

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Legal Entity Identifier Number

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Fax: 0370 703 6101
www.investorcentre.co.uk/contactus

Additional Information

Shareholder Information

Buying Shares in the Company

The Company's shares are traded on the London Stock Exchange and can be bought and sold through a stock broker, financial adviser or via an investment platform.

Share Register Enquiries

Shareholders who hold their shares in certificated form can check their shareholding with the Registrars, Computershare Investor Services PLC, via www.investorcentre.co.uk/contactus

Please note that to gain access to your details on the Computershare website you will need the holder reference number on the top left hand corner of your share certificate or on your tax voucher.

Notifications of changes of address and all enquiries regarding certificates or dividend cheques should be sent in writing to the Registrars.

Shareholder Communications

Legislation allows the default option for receiving and accessing shareholder communications (including the Company's Annual Report) to be via the Company's website.

The Company decided to take advantage of these changes, with effect from the 30 June 2011 Annual Report. Shareholders had the choice of either receiving an email when the Annual Report, and other shareholder communications, becomes available or opting in to receive a printed copy.

These provisions offer a number of benefits for both shareholders and the Company. Shareholders who receive their documentation electronically enjoy faster, more secure access to Company documentation; the Company makes substantial savings on both printing and postage costs for those who receive electronic communications and access the Annual Report online and, by offering electronic provisions alongside traditional paper-based communications, the Company and its shareholders are helping to make a valuable contribution to the environment.

Shareholders were sent an initial election form for electronic communications in March 2011 and new shareholders receive a welcome pack from the registrars on an initial purchase of shares in the Company.

If you wish to change your election for the Annual Report and other shareholder communications, please contact the Company's Registrars at www.investorcentre.co.uk/contactus or via the Key Contacts detailed on page 70.

Savings Scheme and ISA

The Standard Life Investment Trust Savings Plan and ISA was closed on 5 June 2015 and transferred to Alliance Trust Savings. Investor enquiries about administration and applications should now be directed to Alliance Trust Savings on 01382 573737 or contact@alliancetrust.co.uk.

Disability Act

Copies of this Annual Report or other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats including Braille, in larger type or on audio tape.

Our Registrars have installed text phones to allow speech and hearing impaired people who have their own text phone to contact them directly without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, you may use a text phone facility - the universal telephone number for this service is 0370 702 0005.

Share Information

The Net Asset Value per Ordinary Share of the Company is calculated on a daily basis and is published on the London Stock Exchange. The latest live prices for the Ordinary Shares are displayed, subject to a delay of 15 minutes. "SLS" is the code for the Ordinary Shares, which may be accessed at www.londonstockexchange.com.

Further information on the Company may be found on the Company's website at: www.standardlifeuksmallercompaniestrust.co.uk

Additional information relating to the Company, and other investment trusts, is published on the internet by TrustNet whose website address is www.trustnet.co.uk

Ordinary Shares may be purchased or sold directly through a stockbroker or indirectly through a lawyer, accountant or financial adviser or through the Company's registrars.

Additional Information

Shareholder Information

Other Information

The Company is a member of The Association of Investment Companies (AIC). The AIC publishes a Monthly Information Service which contains a wide range of detailed information including statistical and performance data on all its members. A sample copy can be obtained free of charge from The AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY (telephone 020 7282 5555) along with full details of other publications available from The AIC. Alternatively, visit their website on www.theaic.co.uk

Packaged Retail and Insurance-based Products (PRIIPs) Regulation

The Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation required a Key Information Document (KID) to be published for the Company. A copy of the Company's KID is available to view on the Company's website www.standardlifeuksmallercompaniestrust.co.uk.

It should be noted that the form and content of the KID is strictly prescribed and includes specific information on investment risks, performance and costs, which must be provided to all potential investors before they can purchase shares in the Company to enable them to compare the performance of different investment companies.

Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Standard Life Investments (Corporate Funds) Limited, is required to be made available to investors.

Leverage

The Company's maximum and average actual leverage levels at 30 June 2018 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	300.0%	200.0%
Actual	103.6%	106.1%

For the purposes of the AIFM 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 percentage of the Company's exposure to its net asset value and is calculated on both a gross and commitment method. Under the gross method, exposure represents the sum of the Company's position after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Remuneration

The Company's AIFM is subject to the Remuneration requirements of the AIFM Directive on a proportionate basis in respect of its activities as AIFM for a range of Alternative Investment Funds ('AIFs'). Total assets under management of the AIFM were £15.7billion at 31 December 2016, of which £8.5billion of assets were AIFs subject to the AIFM Directive. The NAV of the Company was £367.9m as at 31 December 2017.

The AIFM does not employ any direct staff. The board of the AIFM are employees of Standard Life Investments Limited ('SLI') and are subject to the SLI and Standard Life Aberdeen plc group policies as regulated by the Financial Conduct Authority ('FCA'). SLI is subject to the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') Remuneration Requirements under SYSC 19C on a proportionate basis. The board of the AIFM has responsibility for the risk management arrangements as they relate to the AIFM fund range.

The investment processes are subject to the governance structure of SLI and the board of the AIFM monitors the effectiveness in meeting strict criteria at an AIF level. The board of the AIFM discharges its duties via regular reporting and review at board meetings and via allocation of executive responsibilities, in relation to AIFM, within the SLI management team.

The AIFM has no identified staff outwith its board. The board of the AIFM has six individuals who are AIFM Remuneration Code Staff ('AIFM Code Staff'), i.e. individuals whose activities have a material impact on the risk profile of the AIFM, or the AIFs that it manages. During the year there were a further four individuals on the board who retired during the year and also qualify as AIFM Code Staff up to the dates of their retirement. The aggregate remuneration for these ten individuals, apportioned for the AIFM duties they have performed, for the year to 31 December 2017 is £211,470.

AIFM Code Staff are monitored in respect of their performance in line with the SLI Remuneration Policy which is designed to meet the regulatory requirements of BIPRU and the AIFM Directive. The Remuneration Committees of SLI and Standard Life Aberdeen plc review and approve remuneration for AIFM Code Staff. More information on the remuneration policies of Standard Life Aberdeen plc are disclosed on the following web page: <https://www.standardlife.com/dotcom/our-company/governance/fca-remuneration-code-disclosure.page>

Annual General Meeting

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Standard Life UK Smaller Companies Trust plc will be held at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London, EC4M 9HH at 12 noon on Thursday, 25 October 2018 for the following purposes:

ORDINARY BUSINESS

As Ordinary Business to consider and, if thought fit, pass the following Resolutions, in the case of numbers 1 to 11 inclusive, as Ordinary Resolutions and, in the case of numbers 12 and 13 inclusive, as Special Resolutions:

1. To receive and consider the Directors' Report and Financial Statements for the year ended 30 June 2018, together with the Independent Auditor's report thereon.
2. To receive and approve the Directors' Remuneration Report for the year ended 30 June 2018.
3. To approve a final dividend for the year ended 30 June 2018 of 5.50p pence per Ordinary Share.
4. To re-elect Allister Langlands as a Director of the Company.
5. To re-elect Caroline Ramsay as a Director of the Company.
6. To re-elect Tim Scholefield as a Director of the Company.
7. To elect Ashton Bradbury as a Director of the Company.
8. To elect Alexa Henderson as a Director of the Company.
9. To re-appoint KPMG LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
10. To authorise the Directors to fix the remuneration of the Independent Auditor for the year to 30 June 2019.
11. Authority to allot shares

That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares up to 10% of the nominal value

of the issued share capital (excluding treasury shares) of the Company, as at the date of the passing of this Resolution, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is the earlier, unless previously revoked, varied or extended or renewed by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

12. Disapplication of pre-emption rights

That, subject to the passing of Resolution 11 set out above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered (i), pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into Ordinary Shares for cash pursuant to the authority given by Resolution 11 set out above and (ii), pursuant to Section 573 of the Act to sell equity securities for cash out of treasury as if Section 561(1) of the Act did not apply to any such allotment, or sale out of treasury, of equity securities, provided that this power:

- a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is the earlier, unless previously revoked, voted, extended or renewed by the Company in a general meeting save that the Company may, at any time prior to the expiry of this authority, make an offer or enter into an agreement which would or might require equity securities to be allotted or sold out of treasury after such expiry and the Directors may allot or sell out of treasury equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
- b) shall be limited to the allotment, or sale out of treasury, of equity securities up to an aggregate nominal value of 10% of the nominal value of the issued share capital of the Company, as at the date of the passing of this Resolution.

Annual General Meeting

Notice of Meeting

13. Authority to make market purchases of shares

That, the Company be and is hereby generally and, subject as hereinafter appears, 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 Ordinary Shares of 25p each in the capital of the Company (the “Shares”) either for retention as treasury shares for future reissue, resale, transfer or cancellation:

Provided always that:

- (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company’s issued share capital at the date of the passing of this Resolution (excluding treasury shares);
- (b) the minimum price (exclusive of expenses) which may be paid for each Share shall be 25p;
- (c) the maximum price (exclusive of expenses) which may be paid for a Share is 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 over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue which the purchase is carried out; and
- (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority enter into a contract to purchase shares under such authority which will 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.

SPECIAL BUSINESS

As Special Business, to consider, and if thought fit, pass Resolution 14 as an Ordinary Resolution and Resolutions 15 and 16 as Special Resolutions:

14. Authority to sell shares from treasury at a discount to net asset value

That, subject to the passing of Resolution 12 set out above, the Directors of the Company be authorised for the purposes of paragraph 15.4.11 of the Listing Rules of the Financial Conduct Authority to sell or transfer out of treasury Ordinary Shares of 25p each in the capital of the Company (the “Share(s)”) for cash at a price below the net asset value per Share of the existing Shares in issue (excluding treasury shares), provided always that:

- (a) such sale or transfer will be limited to a sale or transfer at a price in excess of the average price at which the Shares were bought into treasury;
- (b) where any treasury shares are sold pursuant to this power at a discount to the then prevailing net asset value of the Shares, such discount must be lower than the average discount to the net asset value per Share at which the Company acquired the Shares which it then holds in treasury;
- (c) the aggregate net asset value dilution associated with all the sale of treasury shares in any one financial year does not exceed 0.5 per cent of net assets;
- (d) this power shall be limited to the sale of shares having an aggregate nominal value of up to 10% of the nominal value of the issued share capital of the Company, as at the date of the passing of this Resolution and provided further that the number of shares to which this power applies shall be reduced from time to time by the number of Shares which are allotted or sold out of treasury for cash as if Section 561(1) of the Companies Act 2006 did not apply pursuant to the power conferred on the Directors by Resolution 12 set out above; and

Annual General Meeting

Notice of Meeting

- (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, or on the expiry of 15 months from passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority, make an offer or agreement which would or might otherwise require treasury shares to be sold after such expiry and the Directors may sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

15. Tender Offers

That, in addition to the authority given to the Company to purchase its own Ordinary Shares of 25p each (the “Shares”) pursuant to Resolution 13 set out above and in accordance with the terms and conditions of the tender offer(s) which may be set out in the circular to be sent electronically or, if requested in hard copy form to shareholders, the Company be and is hereby authorised for the purpose of Section 701 of the Companies Act 2006 (the “Act”) to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares either for cancellation or for retention as treasury shares for future reissue, resale or transfer provided that:

- (a) the maximum number of Shares hereby authorised to be purchased pursuant to one or more tender offer(s) is 10% of the Shares in issue (excluding any Shares held in treasury) as at the date of the passing of this Resolution;
- (b) the price which shall be paid for a Share pursuant to any such tender offer made by the Company under the authority conferred hereby shall be an amount equal to 98% of realisation value of all the assets attributable to the Shares tendered as at the latest practicable time before such tender offer; and

- (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the date of passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may 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.

16. Notice of General Meeting

That, a general meeting other than an Annual General Meeting may be called on not less than 14 clear days’ notice.

By order of the Board

Maven Capital Partners UK LLP
Company Secretary

Registered office:

1st Floor, Kintyre House
205 West George Street
Glasgow G2 2LW

23 August 2018

Annual General Meeting

Notice of Meeting

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him/her or on his/her behalf at the meeting. A proxy need not be a shareholder. The shareholder may appoint more than one proxy, provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the chairman of the meeting) and give instructions directly to them. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should, or if you would like to appoint more than one proxy, please contact the Company's Registrar, Computershare Investor Services PLC on 0370 889 4076. In the case of joint holders, the vote of the first named in the register of members of the Company who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
2. To be valid, the appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, should be sent to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the Meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company at close of business on 23 October 2018 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Any shareholder holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his or her proxy(ies) will need to ensure that both he or she and his/her proxy(ies) comply with their respective disclosure obligations under the FCA Disclosure, Guidance and Transparency Rules.
5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual and/or by logging in to the website www.euroclear.com/CREST. 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.
6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID number 3RA50) by 12 noon on 23 October 2018 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting). 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 Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
7. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. 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 service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
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. 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 1 and 2 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.

Annual General Meeting

Notice of Meeting

10. The terms of appointment of the Directors of the Company 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 registered office of the Company and will, on the date of the Meeting, be available for inspection at the venue of the Meeting from 15 minutes before the meeting until the conclusion of the Meeting.
11. Shareholders are advised that, unless otherwise stated, 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 or form of direction) 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.
12. Following the Meeting, the results of the voting at the Meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and placed on the Company's website www.standardlifeuksmallercompaniestrust.co.uk
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: (i) 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 (ii) 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 will be required to do so once it has received such requests either from members representing at least 5% of the voting rights of the Company or from at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the Company's registered office at Standard Life UK Smaller Companies Trust plc, c/o Maven Capital Partners UK LLP, 1st Floor Kintyre House, 205 West George Street, Glasgow G2 2LW. 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.
14. As at 6pm on 22 August 2018 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 73,627,056 Ordinary Shares of 25p each. Each Ordinary Share (other than any Ordinary Shares held in treasury) carries the right to one vote at a general meeting of the Company. Accordingly, the total number of voting rights in the Company as at 22 August 2018 was 73,627,056.
15. If you wish to attend the meeting in person, there will be a Members' register for you to sign on arrival. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the Meeting put by a member attending the Meeting unless:
 - a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - b) the answer has already been given on a website in the form of an answer to a question; or
 - c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
16. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's webpage at www.standardlifeuksmallercompaniestrust.co.uk

Registered Office:

Standard Life UK Smaller Companies Trust plc
c/o Maven Capital Partners UK LLP
1st Floor, Kintyre House
205 West George Street
Glasgow G2 2LW

Managed by:

Standard Life Investments (Corporate Funds) Limited
1 George Street
Edinburgh EH2 2LL
Website: standardlifeinvestments.com