Aberdeen Smaller Companies Income Trust PLC

An investment trust offering income and capital growth prospects from smaller UK listed companies

Annual Report
31 December 2018

Cineworld

Cineworld- cinema operator with US, UK and Eastern European exposure. US exposure came via the acquisition of Regal in 2018, and the turnaround of this underperforming operator is key.

Contents

Financial Highlights

Launched in March 1992, Aberdeen Smaller Companies Income Trust PLC (the "Company") is an investment company with its Ordinary shares listed on the premium segment of the London Stock Exchange. The Company is an investment trust and aims to attract long term private and institutional investors wanting to benefit from the income and capital growth prospects of UK smaller companies.

Company Overview

The Company is governed by a Board of Directors (the "Board"), all of whom are independent, and has no employees. Like other investment companies, the Company outsources its investment management and administration to an investment management group, Aberdeen Standard Investments. The Company does not have a fixed life.

Net asset value total return[A]

2018:

–14.6%

2017: +32.9%

FTSE Small Cap ex Inv Trust Index total return

2018:

–13.8%

2017: +15.6%

Share price total return[A]

2018:

–20.2%

2017: 46.0%

Earnings per Ordinary share (revenue)

2018:

9.03p

2017: 7.76p

Dividend per share

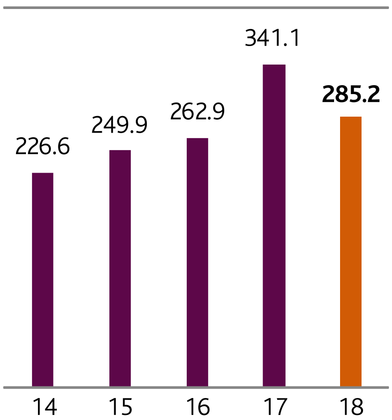
2018:

7.35p

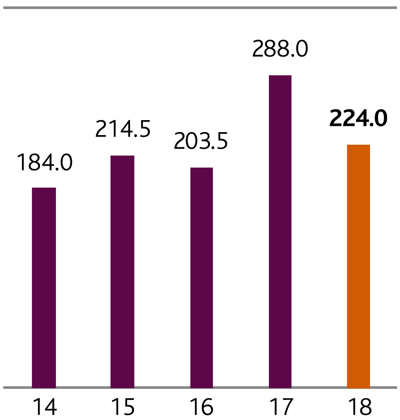
2017: 7.05p

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 15, 62 and 71.

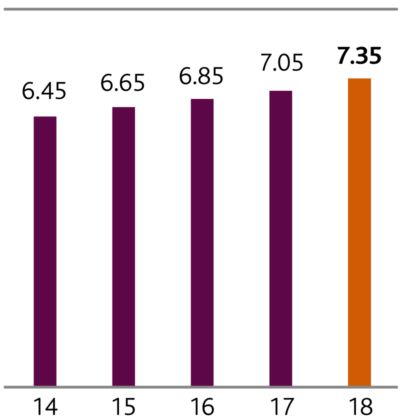
Net Asset Value per Ordinary share
At 31 December - pence



Share price per Ordinary share
At 31 December - pence



Dividend per Ordinary share
For the year to 31 December – pence



Strategic Report

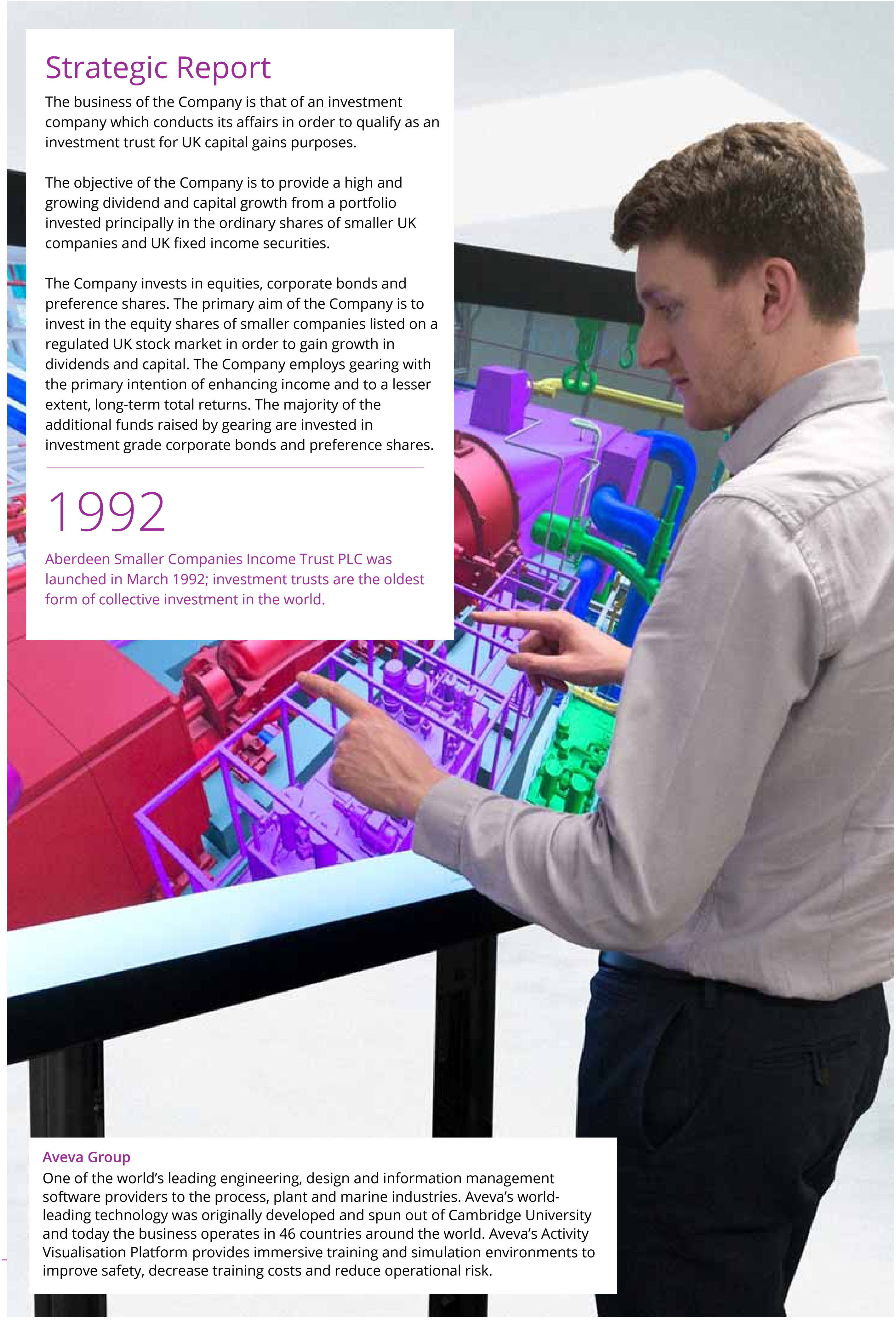
The business of the Company is that of an investment company which conducts its affairs in order to qualify as an investment trust for UK capital gains purposes.

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

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

1992

Aberdeen Smaller Companies Income Trust PLC was launched in March 1992; investment trusts are the oldest form of collective investment in the world.



Aveva Group

One of the world's leading engineering, design and information management software providers to the process, plant and marine industries. Aveva's world-leading technology was originally developed and spun out of Cambridge University and today the business operates in 46 countries around the world. Aveva's Activity Visualisation Platform provides immersive training and simulation environments to improve safety, decrease training costs and reduce operational risk.

Overview of Strategy

Business Model

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

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

Investment Objective

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

Investment Policy

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

Gearing

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

Risk diversification

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

Benchmark index

FTSE Small Cap excluding Investment Trusts (total return).

Management

The Board has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager") to act as the alternative investment fund manager ("AIFM"). The Company's portfolio is managed on a day-to-day basis by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a delegation agreement in place between ASFML and AAML. AAML and ASFML are both wholly owned subsidiaries of Standard Life Aberdeen plc, formed by the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017.

Delivering the Investment Policy

Equity Investment Process

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

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

Fixed Income Investment Process

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

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

Key Performance Indicators ("KPIs")

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

KPI	Description
Performance of net asset value against the benchmark index	The Board considers the Company's net asset value total return figures to be the best indicator of performance over time and is therefore the main indicator of performance used by the Board. The Board measures performance against the benchmark index – the FTSE Small Cap excluding Investment Trusts. The returns over 1, 3 and 5 years are provided on page 15 and a graph showing performance against the benchmark index is shown on page 16. The Board also monitors performance relative to competitor investment trusts over a range of time periods, taking into consideration the differing investment policies and objectives employed by those companies.
Revenue return and dividend growth	The Board monitors the Company's net revenue return and dividend growth through the receipt of detailed income forecasts and considers the level of income at each meeting. The Company aims to grow the dividend at a level above CPI. A graph showing the dividends and yields over 5 years is provided on page 16.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. A graph showing the share price total return performance against the benchmark index is shown on page 16.
Discount/premium to net asset value	The discount/premium relative to the net asset value per share represented by the share price is closely monitored by the Board. A graph showing the share price discount/premium relative to the net asset value is shown on page 16.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The Board has identified the principal risks and uncertainties facing the Company at the current time in the table below together with a description of the mitigating actions it has taken. The Board has carried out a robust assessment of these risks, which includes those that would threaten its business model, future performance, solvency or liquidity.

The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet or they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are on the Company's website. The risks and uncertainties faced by the Company are reviewed annually by the Audit Committee in the form of a risk matrix and heat map and a summary of the principal risks is set out below.

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

Overview of Strategy continued

Investment portfolio management Investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.	The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and monitors compliance with the guidelines through regular reports from the Manager, including performance reporting.
Gearing risk Gearing has the effect of accentuating market falls and market gains. The inability of the Company to meet its financial obligations, or an increase in the level of gearing, could result in the Company becoming over-geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.	The Board monitors the Company's actual gearing levels (including equity gearing) in relation to its assets and liabilities and reviews the Company's compliance with the principal loan covenants. In addition, ASFML, as alternative investment fund manager, has set an overall leverage limit of 2.0x on a commitment basis (2.5x on a gross notional basis) and includes updates in its reports to the Board. However, the Board currently has no plans to initiate this level of gearing and intends to continue to employ a much more modest level of gearing. The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million three year variable rate loan. The facility commenced in April 2018 and at the year end £7 million was drawn down (£5 million fixed rate and £2 million variable rate).
Income and dividend risk The ability of the Company to pay dividends and any future dividend growth will depend over the longer term on the level of income generated from its investments and the timing of receipt of such income by the Company. In the shorter term the size of the Company's revenue reserves will determine the extent that shareholder dividend payments can be less volatile than the dividends actually paid by the companies in which the Trust invest. Accordingly there is no guarantee that the Company's dividend objective will continue to be met.	The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting and the Manager has developed detailed and sophisticated models for forecasting and monitoring dividend payments.
Operational risk The Company is dependent on third parties for the provision of services and systems, in particular those of the Manager and the Depositary. Failure by a third party provider to carry out its contractual obligations could result in loss or damage to the Company.	Written agreements are in place defining the roles and responsibilities of third party providers and their performance is reviewed on an annual basis. The Board reviews regular reports from the Manager on its internal controls and risk management systems, including internal audit and compliance monitoring functions. The Manager reports to the Board on the control environment and quality of service provided by third parties, including business continuity plans and policies to address cyber crime. Further details of internal controls are set out in the Audit Committee's Report.

In addition to these risks, the outcome of the UK Government's negotiations with the European Union on Brexit is still unclear at the date of this report. This remains an economic risk for the Company, principally in relation to the potential impact of Brexit on UK companies within the portfolio and on the Manager's operations. Whilst most of the portfolio holdings are UK-based companies, many have operations overseas with broad and geographically diverse earnings streams. Aberdeen Standard Investments has a significant Brexit program in place aimed at ensuring that they can continue to satisfy their clients' investment needs post Brexit.

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

Promoting the Company

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the value and rating of the Company's shares. The Board believes an effective way to achieve this is through subscription to and participation in the promotional programme run by the Manager on behalf of a number of investment trusts under its management. The Company's financial contribution to the programme is matched by the Manager and regular reports are provided to the Board on promotional activities as well as analysis of the shareholder register.

The purpose of the programme is both to communicate effectively with existing shareholders and to gain new shareholders with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key and therefore the Company also supports the Manager's investor relations programme which involves regional roadshows, promotional and public relations campaigns.

Duration

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

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge represented on the Board in order to allow the Board to fulfill its obligations. Each Director brings different skills and experience to the Board. The Board also recognises the benefits, and is supportive, of the principle of diversity in its recruitment of new Board members. At 31 December 2018, the Board consisted of three males and one female.

Environmental, Social and Human Rights Issues

The Company has no employees as the Board has delegated day to day management and administrative functions to Aberdeen Standard Fund Managers Limited. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is outlined below.

Modern Slavery Act

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

Socially Responsible Investment Policy

The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner and has noted the Manager's policy on social responsibility. The Investment Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments as part of its investment process. In particular, the Investment Manager encourages companies in which investments are made to adhere to best practice in the area of corporate governance. It believes that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area. The Company's ultimate objective, however, is to deliver long term growth on its investments for its shareholders. Accordingly, whilst the Investment Manager will seek to favour companies which pursue best practice in the above areas, this must not be to the detriment of the return on the investment portfolio.

Global Greenhouse Gas Emissions

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

Overview of Strategy continued

Viability Statement

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

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

- The principal risks detailed in the Strategic Report on pages 5 to 6 and the steps taken to mitigate these risks;
- The ongoing relevance of the Company's investment objective in the current environment;
- The Company is invested in readily realisable listed securities;
- The level of gearing is closely monitored. The Company has the ability to renew or repay its gearing: and
- The impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values.

Accordingly, taking into account the Company's current position and the potential impact of its principal risks and uncertainties, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of this Report. In making this assessment, the Board has considered that matters such as significant economic or stock market volatility, a substantial reduction in the liquidity of the portfolio, or changes in investor sentiment could have an impact on its assessment of the Company's prospects and viability in the future and the period over which the performance of the Trust is monitored.

Future

Many of the non-performance related trends likely to affect the Company in the future are common across all closed ended investment companies, such as the attractiveness of investment companies as investment vehicles, the impact of changes in regulations and changes within the pensions and savings market in the UK. These factors need to be viewed alongside the outlook for the Company, both generally and specifically, in relation to the portfolio. The Board's view on the general outlook for the Company can be found in the Chairman's Statement on pages 9 to 10 whilst the Investment Manager's views on the outlook for the portfolio are included on pages 11 to 13.

Robert Lister
Chairman

7 March 2019

Chairman's Statement

Robert Lister
Chairman

Performance

In an uncertain year for capital markets, the Trust's performance at the year-end was slightly behind that of its benchmark, the FTSE Small Cap (excl. investment trusts) Index, with a total return of -14.6%, versus a benchmark total return of -13.8%. Share price performance on the same basis was -20.2%, following a widening of the discount.

Whilst the one year performance figures have lagged, the Trust's Net Asset Value performance over the 3 and 5 year periods remains very strong with returns of 22.8% and 36.4% respectively, representing outperformance relative to the Index of 10.6% and 13.1%.

Dividend

The Company has had an exceptional year in delivering income returns, enhanced by an increase in the number of special dividends received during the year, from Savills, Victrex and in particular Aveva.

Overall this resulted in an increase in the revenue return for the year ending 31 December 2018 to 9.03p (2017 – 7.76p) and allowed the Trust to increase the amount of its total dividend for the year ended 31 December 2018 to 7.35p compared to 7.05p for 2017, an increase of 4.3%, compared to an increase of 2.1% in the CPI in the year.

With the year-end share price at 224p, this gave a dividend yield of 3.3%. Over 3 and 5 years, the dividend has increased by 10.5% and 17.6% respectively compared to rises in CPI of 6.8% and 7.5%.

The undistributed balance of the revenue account will be added to the Company's revenue reserve. The revenue reserve account, which will represent 12.13p per share following payment of the fourth interim dividend, provides the Company with flexibility in future years, should markets be challenged by a lower dividend environment.

Ongoing Charges

Your Board actively monitors costs and is committed to keeping these under tight control. As highlighted in the interim report, it was agreed to revise the basis of the calculation of the management fee from net assets plus debt to net assets with effect from 19 April 2018. The management fee rate remains at 0.75%.

Discount

The Board is disappointed that the share price discount to NAV has widened over the course of the year to 20.9% at the year end, having started the year at a 15.1% discount. The Board continues to monitor the discount closely and works with the Manager to generate additional demand for the Company's shares.

Investee Company Stewardship

The Manager values its active engagement, and continued to meet with its investee companies over the course of the year, something that is strongly encouraged by the Board. Some examples of this are highlighted in the Manager's report.

Gearing/Debt

In April 2018, the Company renewed its debt facilities with The Royal Bank of Scotland, continuing with a £10 million facility, of which £5 million is fixed and fully drawn down and £5 million is floating. At the year end £7 million of the facility was deployed, which is roughly in line with the size of the Trust's fixed income and preference share portfolio.

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

This gives the Trust a net gearing position of 6.2%, compared to 8.5% at the end of 2017.

Board Composition

Having taken over as Chairman of the Company in 2017 following my appointment to the Board in 2012, and following the appointments of David Fletcher in 2016 and Dagmar Kent Kershaw in 2017, together with Barry Rose's continued service, we feel that the Board has undergone sufficient refreshment and is now well positioned for the future.

We do, however, continue to review the Board's composition and to consider succession and refreshment policy.

Manager
Following the merger of Aberdeen Asset Management PLC with Standard Life Investments, Abby Glennie took over the management of the portfolio from Jonathan Allison in September last year, having worked with Jonathan on the portfolio since March. Abby is part of the successful Standard Life Investments Smaller Companies team, headed up by Harry Nimmo.

Since taking over responsibility for the portfolio, it has undergone some repositioning towards the Quality Growth Momentum investment process that the Smaller Companies team have successfully followed for over 20 years in the UK Small Cap area.

The Trust's income objective is to grow the dividend above CPI. The change within the management team will add a growth focus to the investment process, which we believe should enhance dividend growth in future years.

Annual General Meeting
The Annual General Meeting will be held at the offices of Aberdeen Standard Investments, 1 Bread Street, London, on Thursday 2 May 2019 at 12 noon. In addition to the formal business of the meeting, our portfolio manager, Abby Glennie, will provide a presentation on performance for the year and the outlook for smaller companies, and there will also be an opportunity for shareholders to meet informally with the Directors and representatives from the management team at the conclusion of the meeting. An invitation to the meeting is included with the Annual Report and shareholders are requested to complete and return this to the Company Secretary.

Outlook
2018 has been a tougher year, following several years of a bull market. The levels of uncertainty have elevated globally, and particularly so in the UK with the Brexit issues.

The economic picture globally and in the UK also looks more challenged. Economic growth is under pressure, industrial production and manufacturing numbers are abating, there is a prospect of further interest rate rises, commodity prices have fallen sharply, and political interference is at heightened levels particularly in the UK and US.

As a Board, however, we believe the Company is well placed to benefit from finding stock specific growth opportunities in what is a very wide and diverse investable universe. The focus on quality companies by our Manager should help provide some protection in tougher environments, and access to management teams remains extremely accommodative which gives excellent investment insights.

Robert Lister
Chairman

7 March 2019

Investment Manager's Report

Overview

2018 was a tougher year for the Trust in difficult market environments, with a Net Asset Value (NAV) total return of -14.6%, marginally underperforming the benchmark return of -13.8%. Long term performance remains strong, with good outperformance over the 3 and 5 year time periods. The NAV total returns over 3 and 5 years were +22.8% and 36.4% respectively compared to benchmark returns of +12.2% and 23.3% respectively. The discount widened over 2018, reflecting the share price return of -20.2% as we saw negative sentiment towards UK markets and, in particular, Small Cap which is viewed as being more domestic.

It was an interesting year for UK markets as a whole, particularly in Small Caps. The FTSE All Share Index had the worst annual performance since the global financial crisis. Following a very strong year in 2017, where UK Small Cap was one of the strongest asset classes globally, 2018 proved more challenging. The Trust's benchmark, the FTSE Small Cap ex Inv Trust, was the weakest index in the UK, with a total return of -13.8% in 2018. The FTSE 100 held up best with a return of -8.7%, as investors looked for more globally diverse and defensive exposures in the second half of 2018, often gained through the mega caps. Small Caps showed resilience in the first half of 2018, but peaked at the end of May and had a challenging second half, falling sharply in Q4.

We would remind shareholders that UK Small Cap is a very wide and diverse investment universe. Exposure to UK Small Cap is not just exposure to the UK economy. We continue to source a wide range of high quality and high growth businesses in this space. This is particularly important in times of economic and macro stress, where the companies we invest in have stock specific drivers which remain strong despite the external headwinds they might be facing. Calling macroeconomic factors is not our key skill, particularly in these unprecedented times of political uncertainty, and we continue to focus on bottom up stock picking. Our close contact with companies, many of which we have known and invested in for many years, is key to our successful investment track record within Aberdeen Standard Investments Small Cap team.

The valuation of the market has continued to fall this year, with MSCI UK standing at 13.2x Price/Earnings ratio (P/E) at the year end, and dividend yields at almost a 5% level. The UK market very much looks to be in "cheap" territory. The challenge is that earnings revisions have been negative through the year, and the market needs to see some stability of this to gain confidence in the outlook.

Against this tough environment, the Trust marginally underperformed the benchmark. We believe that the fundamentals of our investment process, Quality, Growth and Momentum, remain key and will be increasingly important throughout 2019 as well. The sharp market rotation in Q4, out of growth names into value names, we believe has settled, and was somewhat characterised by profit taking in those high quality high growth businesses which had performed so strongly over the past year. Following many years of strong bull markets and economic growth, in hindsight we look to have entered a bear market around late May, and our focus on quality is key to relative outperformance through tougher environments.

The split of total assets at the year-end is similar to previous years, with just below 90% of the assets in equities, around 7% in bonds and preference shares, and the remainder in cash.

Equity Portfolio

The three biggest contributors to performance in 2018 were Burford Capital, Aveva and Telecom Plus. Burford was also one of the best contributors in 2017, highlighting its strength over the long term and why it remits a large position size despite being one of the lower yielders. The growth Burford has delivered is impressive, with attractive returns, and a bright outlook given increased funding. Burford is the leader in litigation finance, a market which is large and growing, and with a leading position it has created barriers to entry. It hasa track record of superior underwriting expertise, has developed a superb network of clients which gives it great origination abilities, and has access to a diversified investor base for capital requirements. Aveva has had a very solid year, driven by a combination of strong underlying growth, and the benefits of the merger with Schneider Software coming through. It has integrated the businesses quickly, with enhanced product portfolios, improved sales efficiencies, and cost cutting, with more benefits to flow through in 2019. This deal looks to have been a very smart one. Importantly we believe the business is less dependent or correlated to oil prices that it has been historically. The balance sheet is net cash, with attractive dividend growth. Lastly Telecom Plus has been a strong performer, particularly in Q4. After a long period of market disruption from low priced challengers, the environment is now going in its favour. Regulation has improved its position, with a price cap forthcoming, and with smaller challengers going bust, and price inflation at the lower end of the market, its competitive position has improved heavily and this increases our optimism of strong growth coming back into the business. Its balance sheet is well positioned, and provides a strong dividend yield.

The main detractors from performance to highlight include Victoria and Cairn Homes. Victoria shares fell sharply in October on their trading update. Results were slightly disappointing on margin levels, but the market de-rated shares on concern over the future strategy and its need to refinance and the associated costs of that. Over the week it tried to launch a €450m bond, the pricing of that debt rose significantly, and the issue was cancelled. Victoria's business model is based around acquisitions, and improving those businesses, so where its multiple is lower than previously, and debt costs are rising, this challenges its model. Cairn Homes shares were weak through the year, but particularly in Q4. Earnings downgrades were made to reflect a slower level of ramp-up, as well as slightly higher operating costs. The uncertainty around Brexit also remains a concern for Irish markets and the housing market. Given neither of these names pay dividends, and their outlooks have weakened, exposure to both holdings were reduced.

There has been a certain amount of repositioning in the portfolio this year, but the overall impact on turnover levels has been minimal. The transactions have partly been driven by the investment process focusing on quality, growth and momentum going forward. Through these transactions the Manager has maintained the dividend yield exposure, but improved the quality of the businesses (strong balance sheets and higher return on earnings) and the quantum of the growth prospects (revenue growth, earnings growth and importantly dividend growth). The multiple paid for these businesses is slightly higher on a P/E basis, but we feel this is warranted given the higher growth as they grow into their multiples, and the manager believes the benefit will come through in more attractive total returns.

New holdings in the fund include: Hollywood Bowl, Liontrust, Diploma, Midwich, AJ Bell, Cineworld, and FDM. These are all stocks providing attractive dividend yields, and are quality, growth, momentum businesses which score well on our Matrix screening tool. Hollywood Bowl is a leisure operator in the UK, focused on ten pin bowling centres. It has a strong refurbishment program driving attractive returns on investment, as well as operational efficiency improvements and solid like-for-like growth. Liontrust has diversified its exposure as an asset manager through the acquisition of new teams in different asset classes. It is seeing strong performance and importantly fund flows, and has an impressive management team. Diploma is a value add distributor, attracting impressive margins, and is not overly cyclical. Midwich is also a value add distributor, but focused on audio visual markets. It has good organic growth, but supplements that with acquisitions, both in the UK and internationally mostly in Europe. It has strong relationships with original equipment manufacturers (OEMs), is building out its product portfolio, and its strong knowledge and service offering makes it a trusted partner. We took part in the Initial Public Offering of AJ Bell, a high quality player in the platform space, with good assets under administration and solid pricing levels. The CEO founded the business, and our engagement with him has been very impressive. Cineworld acquired Regal cinemas in the US, and we believe there is a strong turnaround story in that undermanaged and underinvested business. FDM is a specialist technology recruitment business, who train graduates, ex-military and female returners to work, in specialist areas of IT. Those "mounties" are then placed out directly to customers, with whom FDM see strong repeat business.

We also topped up existing holdings in Telecom Plus, Dechra and Intermediate Capital.

The Manager exited holdings in Gima, Keller, BBA Aviation and Mothercare. Keller's profit warning was disappointing, and changed the investment case outlook. BBA is seeing challenging end markets which has driven earnings downgrades, and we had concerns over its cyclicality. We also had concerns over the lack of order visibility in Gima, with weak read across on capex from Philip Morris, and high expectation in market forecasts. Lastly, Mothercare has suffered from the weaker UK retail environment and a lack of differentiation. The international business could no longer make up for this, and its balance sheet caused concerns.

We have also reduced exposure to Smart Metering, Euromoney, Ultra Electronics, Stock Spirits, Manx Telecom, Elementis, Fuller Smith and Turner, and Genus.

Investee Company Stewardship

We met the Chairman of XP Power to discuss the changes he has made to the governance framework in recent years. A new Internal Audit function has been established and the risk processes strengthened. Their remuneration policy has been formalised and disclosure improved. We should expect these improvements to continue. Key upcoming changes include progressing board succession planning and the likelihood of an audit tender. The Chairman gave a good account of their plans to progress these.

At Close Brothers, we met the new Chair to discuss business strategy, culture, succession planning for executives and non-executives, board evaluation and tendering of the audit. With regard to audit, PwC were their remuneration consultants from 2008 but have stepped down since they became auditors at the start of 2018. We asked the company to include in the Annual Report more disclosure as to how that potential conflict was managed by the Audit Committee during the tender process. On culture, we were reassured that there is a strong focus on the customer and social purpose.

Fixed Income and Preference Share portfolio

A small number of themes dominated financial markets throughout almost all of 2018. An escalation of trade concerns – specifically, trade wars between the United States and China – unnerved market participants as to prospects for global growth. Worries about Eurozone viability in the shape of Italian political turmoil were a powerful influence. Elsewhere, negotiations over the UK's withdrawal from the European Union rumbled on, with no signs of a clear and satisfactory conclusion. US data shows a solid pace of economic activity and continues to lead and outperform other developed markets globally.

UK data saw a modest rise in growth after a weather affected start to the year and a rate rise from the Bank of England, with Brexit concerns expected to weigh on the economy. With the rise in volatility and US central bank rates, UK government bond yields rose before returning to the same starting yield as equity markets sold off into year end.

Corporate bond spreads widened from the lows at the start of 2018, particular lower quality and long dated companies. This was led by banks and insurance companies which have previously been the stronger performers in 2017.

The performance of the Company's holding in the Scottish and Southern Electric hybrid bond has been disappointing following profit warnings and difficulties in its retail business. But with a call in late 2020 the yield remains attractive. The other remaining bond is Anglian Water 2026, a subordinated bond issued out of the core regulated entity. A harsher regulatory price review and concerns on Labour's nationalisation policy on utilities over hang the sector. The price review is focusing companies on better balance sheet management and with the benefit of a higher yield than Anglian Water senior debt, the bond remains attractive.

There was a part tender of Wales & West utility, trading at +120bp over gilts and tendered at +50bp. The remaining holding was called by the company in December 2018. The HBOS Capital 6.461% was also called by its issuing company in December 2018.

With respect to the Preference share holdings, following Aviva's announcement in March that it might cancel some of its preference share securities at par and its subsequent decision not to cancel following significant investor criticism, we saw the value of the preference share portfolio start to recover to the levels we had seen prior to that announcement, which was encouraging. However, in spite of this recovery, in the second half of the year, we saw the value of the preference share portfolio decline, following the fall in markets in the 4th quartile of 2018.

The weak tone was driven by concerns of the US Fed continuing to raise rates in 2019, lacklustre GDP growth particularly in UK & Europe, China trade wars muddling along and Brexit concerns in the UK. The valuation of the Company's holding in Ecclesiastical was more resilient than that of other preference shares, in the main due to their assurances that they had no plans to cancel at par.

Outlook

Levels of uncertainty in markets are high relative to history, partly driven by Brexit but also wider concerns globally about where we are in the economic cycle. This has been a long bull market, and it does feel like that has now come to an end. Importantly our investment process is on stock specifics, and therefore we are not over analysing the many macro factors which are seeing change. Our investment process of focusing on Quality, Growth and Momentum, remains constant despite what stage of the market cycle we might be in. We focus on bottom up stock picking, and our engagement with management teams and fundamental analysis is critical to our process.

Markets in 2019 are likely to remain challenging, coming from years of bull market territory. Brexit remains the main overhang in the UK, and we continue to lack clarity of a resolution for that. We expect that quality will become increasingly important in tougher markets, which our process plays into well. The sustainability of earnings growth will also be an important factor driving share prices, where we saw an extreme level of profit warnings in 2018 and shares sharply falling on those warnings.

The UK Small Cap space remains an attractive hunting ground for quality growth businesses, which provide attractive income levels; with a diverse range of exposures and stock specific drivers. We continue to engage with management teams to inform our investment views on where we can generate the most attractive investment returns for the portfolio.

Aberdeen Asset Managers Limited*
7 March 2019

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

Results

Financial Highlights

	31 December 2018	31 December 2017	% change
Total investments	£66,843,000	£81,673,000	–18.2
Shareholders' funds	£63,052,000	£75,421,000	–16.4
Market capitalisation	£49,526,000	£63,676,000	–22.2
Net asset value per share	285.18p	341.12p	–16.4
Adjusted net asset value per share[A]	283.23p	339.32p	–16.5
Share price (mid market)	224.00p	288.00p	–22.2
Discount to adjusted NAV[A]	20.9%	15.1%	
Net gearing[B]	6.2%	8.5%	
Ongoing charges ratio[C]	1.28%	1.35%	
Dividends and earnings			
Earnings per Ordinary share (revenue)[D]	9.03p	7.76p	+16.4
Dividends per Ordinary share[E]	7.35p	7.05p	+4.3
Dividend cover[F]	1.23	1.10	
Revenue reserves[G]	£3,114,000	£2,709,000	

[A] Considered to be an Alternative Performance Measure, based on NAV above reduced by the fourth interim dividend adjustment of 1.95p (2017 – 1.80p). Further details can be found on page 62.

[B] Considered to be an Alternative Performance Measure. Calculated in accordance with AIC guidance "Gearing Disclosures post Retail Distribution Review" (see definition on page 63).

[C] Considered to be an Alternative Performance Measure. Ongoing charges are calculated in accordance with guidance issued by the AIC (further details can be found on page 63).

[D] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).

[E] The figures for dividends per share reflect the years in which they were earned (see note 8).

[F] Considered to be an Alternative Performance Measure. Further details can be found on page 63.

[G] The revenue reserve figure does not take account of the fourth interim dividend amounting to £431,000 (2017 – £398,000).

Performance

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value[A]	–14.6	+22.8	+36.4
Share price (based on mid price)[A]	–20.2	+14.3	+17.1
FTSE Small Cap ex Inv Trust Index	–13.8	+12.2	+23.3
FTSE All-Share Index	–9.5	+19.5	+22.1

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 62 and 71.

Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	1.80p	5 April 2018	6 April 2018	27 April 2018
Second interim dividend	1.80p	12 July 2018	13 July 2018	27 July 2018
Third interim dividend	1.80p	4 October 2018	5 October 2018	26 October 2018
Fourth interim dividend	1.95p	3 January 2019	4 January 2019	25 January 2019
2018	**7.35p**			
First interim dividend	1.75p	6 April 2017	7 April 2017	28 April 2017
Second interim dividend	1.75p	6 July 2017	7 July 2017	28 July 2017
Third interim dividend	1.75p	5 October 2017	6 October 2017	27 October 2017
Fourth interim dividend	1.80p	4 January 2018	5 January 2018	26 January 2018
2017	**7.05p**			

Ten Year Financial Record

Year to 31 December	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue available for Ordinary dividends (£'000)	1,608	1,336	1,329	1,257	1,496	1,579	1,666	1,622	1,716	1,997
Per share (p)										
Net revenue return	7.27	6.04	6.01	5.69	6.77	7.14	7.54	7.34	7.76	9.03
Net dividends paid/proposed	7.00	6.00	6.00	6.05	6.25	6.45	6.65	6.85	7.05	7.35
Total return	37.07	47.94	(16.70)	41.92	74.73	(5.00)	29.96	19.79	85.19	(48.74)
Net asset value per share	114.6	156.2	133.5	169.5	238.0	226.6	249.9	262.9	341.1	285.2
Shareholders' funds (£m)	25.3	34.5	29.5	37.5	52.6	50.1	55.3	58.1	75.4	63.1

Cumulative Performance

Rebased to 100 at 31 December 2008

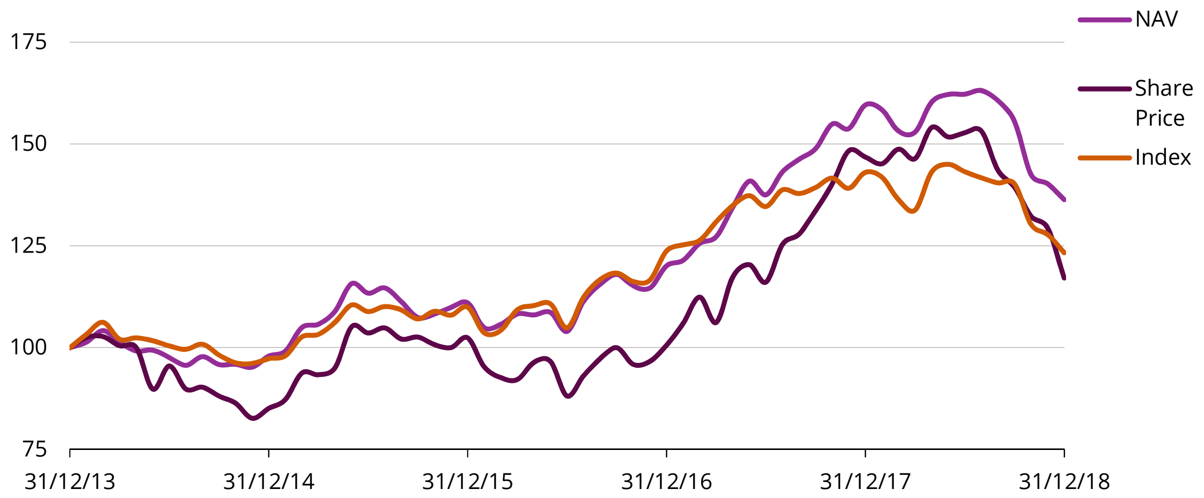
As at 31 December	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV performance	100.0	130.7	178.3	152.4	193.4	271.6	258.6	285.2	300.0	389.3	325.4
NAV total return[A]	100.0	146.8	210.3	186.9	247.1	358.2	350.8	397.7	430.2	571.8	488.5
Share price performance	100.0	169.6	240.2	188.8	270.5	398.2	328.6	383.0	363.4	514.3	400.0
Share price total return[A]	100.0	196.6	295.5	243.5	366.9	558.2	474.9	571.7	561.5	819.5	653.7
Benchmark performance	100.0	152.7	172.6	142.0	187.8	263.4	250.6	275.4	300.8	338.1	281.9
Benchmark total return	100.0	157.7	184.3	156.4	213.1	306.6	298.4	337.1	379.4	438.6	378.1

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

Performance continued

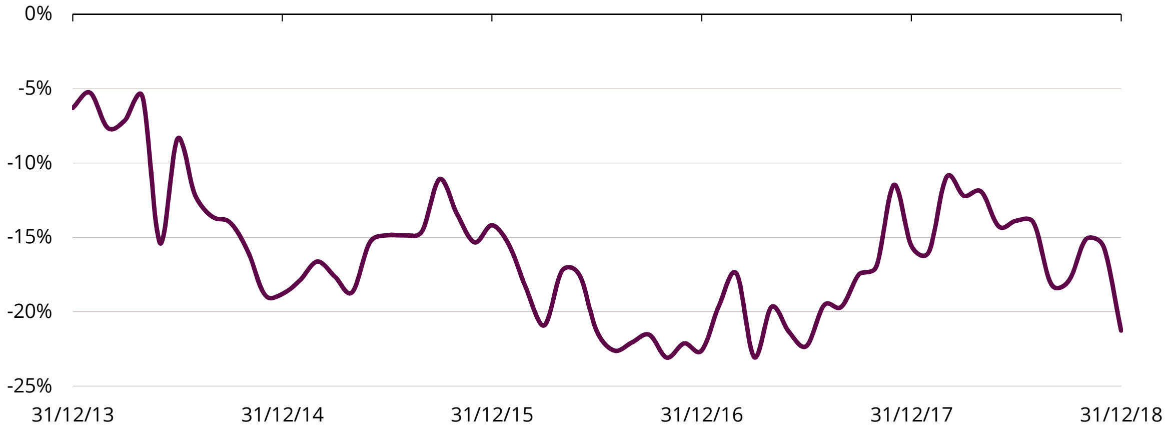
Total Return of NAV and Share Price vs FTSE Small Cap ex Inv Trust Index

Figures are total return and have been rebased to 100 at 31 December 2013



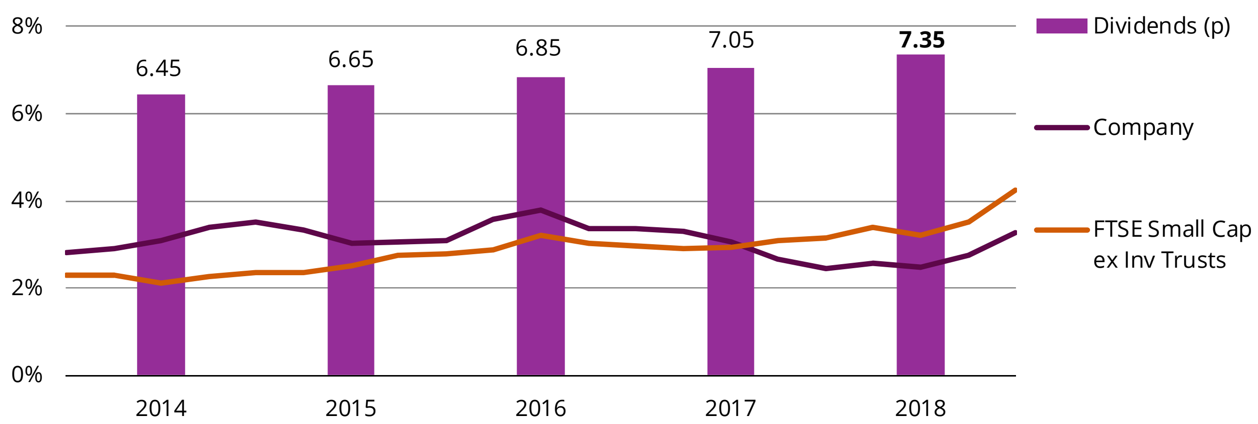
Share Price Discount to Net Asset Value

Five years to 31 December 2018



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

Five years to 31 December 2018



Portfolio

The Trust had a challenging year with a Net Asset Value (NAV) total return of -14.6% compared to a benchmark return of -13.8%. Long term performance remains strong, with good outperformance over the 3 and 5 year time periods of 10.6% and 13.1% respectively.

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

Portfolio

Ten Largest Equity Holdings

As at 31 December 2018

Company	Sector	Valuation 2018 £'000	Total Portfolio %	Valuation 2017 £'000
Aveva Group One of the world's leading engineering, design and information management software providers to the process, plant and marine industries. Aveva's world-leading technology was originally developed and spun out of Cambridge University and today the business operates in 46 countries around the world.	Software & Computer Services	2,626	4.0	3,000
Assura Assura is a long-term investor and developer of primary care property, working with general practitioners, health professionals and National Health Services to deliver patient care.	Real Estate Investment Trusts	2,497	3.7	2,989
Dechra Pharmaceuticals An international specialist veterinary pharmaceuticals business that manufactures and distributes veterinary products in more than 50 countries around the world. Recent acquisitions have enhanced the pipeline of drugs as well as granted access to new markets.	Pharmaceuticals & Biotechnology	2,401	3.6	2,157
DiscoverIE Group Discoverie Group is a supplier of niche electronic products, manufacturing customs designed and built electronics to industrial and medical companies across Europe and South Africa.	Support Services	2,350	3.5	2,545
Telecom Plus Telecom Plus, through its Utility Warehouse brand, is a supplier of energy and telephony services to UK households. It is a reseller which makes money from managing the end customer relationship.	Fixed Line Telecommunications	2,305	3.4	1,532
Victrex The leading global manufacturer of PEEK polymer which is a high performance thermoplastic. With its high strength and performance qualities it is used as an alternative product to metal in a number of different industries.	Chemicals	2,299	3.4	2,321
Burford Capital A market leading litigation finance company, providing finance for corporate litigation, arbitration and other disputes.	Financial Services	2,221	3.3	1,697
Chesnara Chesnara is a holding company engaged in the management of life and pension books in the UK, Sweden and the Netherlands. The overriding strategy is to deliver a reliable dividend stream to shareholders funded from the emergence of surplus cash from their various life assurance subsidiaries.	Life Insurance	2,039	3.1	2,298
XP Power A power solutions business that designs and manufactures power convertors used by customers to ensure their electronic equipment can function both safely and efficiently. With over 5,000 different products, XP Power can provide a full value add capability to its customers.	Electronic & Electrical Equipment	1,978	3.0	3,379
Hollywood Bowl Leisure operator focused on ten pin bowling in the UK. Growth driven by refurbishments, new site openings, and acquisitions; generating attractive returns and cash generation.	Travel & Leisure	1,914	2.9	–
		22,630	**33.9**	

Portfolio
Other Equity Investments
As at 31 December 2018

Company	Sector classification	Valuation 2018 £'000	Total portfolio %	Valuation 2017 £'000
Close Brothers	Financial Services	1,843	2.7	1,853
Morgan Sindall	Construction and Materials	1,792	2.7	2,231
Unite Group	Real Estate Investment Trusts	1,787	2.6	1,634
Barr (A.G.)	Beverages	1,645	2.5	1,390
Big Yellow	Real Estate Investment Trusts	1,592	2.4	1,585
Robert Walters	Support Services	1,592	2.4	1,580
Fisher (James) & Sons	Industrial Transportation	1,528	2.3	1,379
Intermediate Capital Group	Financial Services	1,511	2.3	1,564
RPC Group	General Industrials	1,506	2.2	2,036
Oxford Instruments	Electronic & Electrical Equipment	1,492	2.2	1,534
Twenty largest investments		**38,918**	**58.2**	
Rathbone Brothers	Financial Services	1,441	2.2	1,715
Workspace Group	Real Estate Investment Trusts	1,440	2.2	1,470
Hilton Food Group	Food Producers	1,429	2.1	–
Hiscox	Non-life Insurance	1,426	2.1	1,288
Abcam	Pharmaceuticals & Biotechnology	1,417	2.1	1,372
Euromoney Institutional Investor	Media	1,207	1.8	2,545
Ultra Electronics	Aerospace & Defence	1,207	1.8	–
Genus	Pharmaceuticals & Biotechnology	1,192	1.8	1,746
Manx Telecom	Fixed Line Telecommunications	1,128	1.7	1,826
Liontrust Asset Management	Financial Services	1,012	1.5	–
Thirty largest investments		**51,817**	**77.5**	
Scandinavian Tobacco [A]	Tobacco	1,000	1.5	1,514
Savills	Real Estate Investment & Services	997	1.5	1,400
Midwich	Support Services	981	1.5	–
Diploma	Support Services	867	1.3	–
FDM	Software & Computer Services	833	1.2	–
Hansteen	Real Estate Investment Trusts	651	1.0	1,004
Cineworld Group	Travel & Leisure	598	0.9	–
Elementis	Chemicals	586	0.9	1,855
Hostelworld Group	Travel & Leisure	574	0.8	–
Victoria	Household Goods & Home Construction	509	0.8	1,354
Forty largest investments		**59,413**	**88.9**	
Stock Spirits Group	Beverages	497	0.7	1,904
Fuller Smith & Turner 'A'	Travel & Leisure	481	0.7	905
Cairn Homes	Household Goods & Home Construction	443	0.7	1,569
Smart Metering Systems	Support Services	429	0.6	2,499
AJ Bell	Financial Services	400	0.6	–
Total Equity investments		**61,663**	**92.2**	

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

Portfolio

Other Investments

As at 31 December 2018

Company	Valuation 2018 £'000	Total portfolio %	Valuation 2017 £'000
Convertible Preference Shares			
Balfour Beatty Cum Conv 10.75% 01/07/2020	**954**	1.4	1,004
Total Convertibles	**954**	1.4	
Corporate Bonds			
Anglian Water 4.5% 2026	**535**	0.8	570
SSE 3.875% Var perp	**491**	0.8	519
Total Corporate Bonds	**1,026**	1.6	
Preference Shares[A]			
Aviva 8.75%	**1,192**	1.8	1,599
General Accident 8.875%	**1,192**	1.8	1,568
Ecclesiastical Insurance 8.625%	**816**	1.2	930
Total Preference shares	**3,200**	**4.8**	
Total Other Investments	**5,180**	**7.8**	
Total Investments	**66,843**	**100.0**	

[A] None of the preference shares listed have a fixed redemption date.

All investments are listed on the London Stock Exchange (sterling based).

Distribution of Assets and Liabilities

At 31 December 2018

	Valuation at 31 December 2017 £'000	%	Movement during the year Purchases £'000	Sales £'000	Gains/ (losses) £'000	Valuation at 31 December 2018 £'000	%
Listed investments							
Equity investments	74,544	98.9	14,726	(16,390)	(11,217)	61,663	97.9
Convertible preference shares	1,004	1.3	–	–	(50)	954	1.5
Corporate bonds	2,028	2.7	–	(910)	(92)	1,026	1.6
Preference shares	4,097	5.4	–	–	(897)	3,200	5.1
	81,673	108.3	14,726	(17,300)	(12,256)	66,843	106.1
Current assets	912	1.2				3,414	5.4
Other current liabilities	(164)	(0.2)				(222)	(0.4)
Loans	(7,000)	(9.3)				(6,983)	(11.1)
Net assets	**75,421**	**100.0**				**63,052**	**100.0**
Net asset value per Ordinary share	**341.12p**					**285.18p**	

Governance

The Company is registered as a public limited company and has been accepted by HM Revenue & Customs as an investment trust. The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

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

Burford
Market leading litigation finance company, providing finance for corporate litigation, arbitration and other disputes.

Your Board of Directors

Robert Lister

Independent Chairman

Length of service: 7 years, appointed in March 2012

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

David Fletcher

Audit Committee Chairman

Length of service: 2 years, appointed in August 2016

Experience: Group finance director of Stonehage Fleming Family & Partners, a leading independently owned multi-family office, having joined in 2002. Prior to that, he spent 20 years in investment banking with JPMorgan Chase, Robert Fleming & Co. and Baring Brothers & Co Limited, latterly focused on financial services in the UK (asset management and life insurance). He started his career with PricewaterhouseCoopers and is a chartered accountant. He is also a non-executive director of JP Morgan Claverhouse Investment Trust plc.

Dagmar Kent Kershaw

Length of service: 1 year, appointed in May 2017

Experience: Over 20 years investment experience specialising in credit and structured finance markets. She was head of credit fund management for Europe and Asia-Pacific at Intermediate Capital Group from 2008 until 2016. Prior to that she was the founder and head of structured products at Prudential M&G and was also head of debt private placements. Her previous experience in credit markets included roles at Scotiabank and NatWest Bank.

Barry Rose

Length of service: 8 years, appointed in March 2011

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

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

Results and Dividends

The financial statements for the year ended 31 December 2018 are contained on pages 41 to 63.

A fourth interim dividend of 1.95p per share was declared by the Board in December 2018 with an ex-dividend date of 3 January 2019 and was paid on 25 January 2019. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2019.

Investment Trust Status

The Company is registered as a public limited company and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448.

The Company has been approved by HM Revenue & Customs as an investment trust subject to the Company continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the on-going requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 January 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2018 so as to enable it to comply with the on-going requirements for investment trust status.

Individual Savings Accounts ("ISAs")

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

Capital Structure

At 31 December 2018, the Company had 22,109,765 fully paid Ordinary shares of 50p each (2017 – 22,109,765 Ordinary shares). There have been no changes in the Company's issued share capital subsequent to the year end, up to the date of this Report.

Voting Rights

Each Ordinary share holds one voting right and shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares carry a right to receive dividends. On a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law.

Management Agreement

The Company has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager"), a wholly owned subsidiary of Standard Life Aberdeen plc, as its alternative investment fund manager ("AIFM"). ASFML has been appointed to provide investment management, risk management, administration and company secretarial services as well as promotional activities. The Company's portfolio is managed by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a group delegation agreement in place between ASFML and AAML. In addition, ASFML has sub-delegated promotional activities to AAML and administrative and secretarial services to Aberdeen Asset Management PLC.

The management fee, details of which are shown in note 4 to the financial statements, is 0.75% per annum of net assets.

The contract may be terminated by either the Company or the Manager on the expiry of six months' written notice.

Substantial Interests

The Board has been advised that the following shareholders owned 3% or more of the issued Ordinary share capital of the Company at 31 December 2018:

Shareholder	Number of shares held	% held
Aberdeen Investment Trust Share Plans	4,181,858	18.9
Aberdeen Standard Investments	3,120,476	14.1
Hargreaves Lansdown	1,929,443	8.7
Alliance Trust Savings	1,513,694	6.9
Philip J Milton	1,221,673	5.5
Charles Stanley	920,522	4.2
Rathbones	823,020	3.7
Interactive Investor	752,131	3.4
AJ Bell	730,616	3.3

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

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company.

Directors' Report continued

The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the UK Corporate Governance Code (the "UK Code") published in 2016 which is available on the Financial Reporting Council's website: www.frc.org.uk.

Additionally, the Company is a member of the Association of Investment Companies ("AIC") which has its own Code of Corporate Governance, published in 2016 (the "AIC Code"), that seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: www.theaic.co.uk.

The Board confirms that, during the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code. The full text of the Company's Corporate Governance Statement can be found on the Company's website: www.aberdeensmallercompanies.co.uk.

The Board

The Board consists currently of four non-executive Directors. There were no changes in the Board of Directors during the year to 31 December 2018.

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

Biographies of the Directors appear on page 22 which demonstrate the wide range of skills and experience each brings to the Board. No Director has a service contract with the Company. Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director. There were no contracts during, or at the end of the year, in which any Director was interested.

The Board has a formal schedule of matters specifically reserved to it for decision including strategy, dividend policy, gearing policy, review of the Manager and corporate governance matters. The Company's investment portfolio is managed within guidelines set by the Board as detailed on page 4.

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

The following table sets out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2018 (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
D. Fletcher	5 (5)	2 (2)	1 (1)	1 (1)
D. Kershaw	5 (5)	2 (2)	1 (1)	1 (1)
R. Lister[1]	5 (5)	2 (2)	1 (1)	1 (1)
B. Rose	5 (5)	2 (2)	1 (1)	1 (1)

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

Director's Interests

The Board regularly monitors the interests of each Director and a register of Directors' interests, including potential conflicts of interest, is maintained by the Company. Directors who have potential or actual conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board continually monitors potential conflicts of interests on a regular basis.

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

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

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

Board Committees

The Board has appointed three Committees with specific operations as set out below. The terms of reference, which clearly define the responsibilities and duties of each Committee, are available on the Company's website. The terms of reference of each of the Committees are renewed and re-assessed by the Board for their adequacy on an ongoing basis.

Audit Committee

The Audit Committee's Report is contained on pages 31 to 32.

Management Engagement Committee

The Management Engagement Committee, which comprises all Directors, reviews on an annual basis the terms of the agreements with the Manager including, but not limited to, the management fee and reviews the performance of the Manager in relation to the achievement of the Company's objectives. The Board considers the continuing appointment of the Manager, on the terms agreed, to be in the interests of shareholders at this time.

Nomination Committee

The Nomination Committee, which comprises all Directors, reviews Director appraisals, succession planning, new appointments and training. Appointments of new Directors are undertaken following a thorough and open process involving professional recruitment consultants and interviews with the candidates identified. New appointments are identified against the requirements of the Company's business and the need to have a balanced Board with the best range of skills and experience to complement existing Directors. Appointments are made on merit, taking into account the benefits of diversity, including gender. However, the Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board, therefore, has not set any measurable targets in relation to the diversity of the Board.

In accordance with corporate governance procedures adopted by the Board, Robert Lister, David Fletcher, Dagmar Kent Kershaw and Barry Rose will stand for annual re-election at the AGM in May 2019.

Performance Evaluation

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

The review process carried out in respect of the year ended 31 December 2018 concluded that the Board is functioning well and operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company. There are no issues of concern.
The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Manager. The Board takes the view that independence is not compromised by length of service.

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

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

Relations with Shareholders

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

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

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

The UK Stewardship Code and Proxy Voting

Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

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

Socially Responsible Investment Policy

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner. The Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area. The Company's ultimate objective is to deliver superior long-term returns for our shareholders which we believe will be produced on a sustainable basis by investments in companies which adhere to best practice in the area of Corporate Governance. Accordingly, the Manager will seek to favour companies which pursue best practice in the above area.

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility of which £5 million expires in 2021 and £5 million expires in 2023. The Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this annual report and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 34 and 39.

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

Annual General Meeting

The Annual General Meeting will be held on 2 May 2019 at 12.00 noon and the following resolutions will be proposed:

Section 551 authority to allot shares

Resolution 9, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,960, representing approximately one third of the total Ordinary share capital of the Company in issue as at the date of this document, such authority to expire on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Disapplication of Pre-emption Provisions

Resolution 10 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 10, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

Purchase of the Company's own Ordinary Shares

Resolution 11, which is a special resolution, will be proposed to renew the Company's authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (3,314,253 Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting.

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 30,033 Ordinary shares, representing 0.1% of the issued Ordinary share capital of the Company.

By order of the Board

Robert Lister
Chairman

7 March 2019

Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 28 April 2017;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

The law requires the Company's auditor to audit certain of the disclosures provided in the Remuneration Report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included on pages 35 to 40.

Remuneration Policy

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

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

Aggregate Fees

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

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

	31 December 2018 £	31 December 2017 £
Chairman	34,500	34,500
Chairman of Audit Committee	26,500	26,500
Director	23,000	23,000

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

Appointment

- The Company only intends to appoint non-executive Directors.
- All the Directors are non-executive appointed under the terms of letters of appointment.
- Directors must retire and be subject to election at the first Annual General Meeting after their appointment, and to re-election annually thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £23,000).
- No incentive or introductory fees will be paid to encourage a directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.
- The Directors are entitled to be re-imbursed for out of pocket expenses incurred in connection with performing their duties including travel expenses.

Performance, Service Contracts, Compensation and Loss of Office

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

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

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

Implementation Report

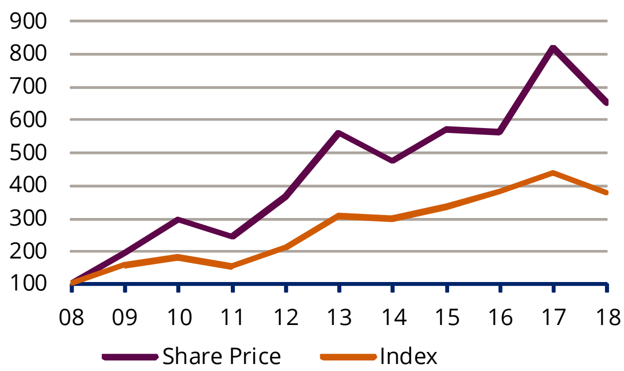
Directors' Fees

There has not been an increase in Directors' fees since 1 January 2014. The Board carried out a review of the level of Directors' fees during the year and concluded that they should remain at the current levels. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

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

Company Performance

The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE Small Cap ex Inv Trusts for the ten year period to 31 December 2018 (rebased to 100 at 31 December 2008). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 19 April 2018, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2017. 97.7% of proxy votes were in favour of the resolution, 1.9% were against, and 0.4% abstained. At the Company's AGM held on 28 April 2017, shareholders approved the Directors' Remuneration Policy with 98.9% of proxy votes in favour of the resolution, 0.9% against and 0.2% abstained.

A resolution to approve the Director's Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2018 will be proposed at the AGM.

Spend on Pay

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

Audited Information

Fees Payable

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

Fees are pro-rated where a change takes place during a financial year. Of the fees disclosed, £26,500 (2017: £26,451) was payable to a third party, Stonehage Fleming, in respect of making available the services of David Fletcher.

	2018 £	2017 £
Robert Lister	34,500	30,667
David Fletcher (appointed 1 August 2016)	26,500	26,451
Dagmar Kershaw (appointed 2 May 2017)	23,000	15,272
Barry Rose	23,000	23,000
Carolan Dobson (resigned 28 April 2017)	-	11,500
Total	**107,000**	**106,890**

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 31 December 2018 and 31 December 2017 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table below.

	31 Dec 2018 Ord 50p	31 Dec 2017 Ord 50p
Robert Lister	5,200	5,200
David Fletcher	10,950	10,679
Dagmar Kershaw	8,752	8,594
Barry Rose	5,000	5,000

Since the year end Mr Fletcher and Mrs Kershaw purchased 85 and 46 shares respectively through dividend re-investment schemes. There have been no other changes to the Directors' interests in the share capital of the Company since the year end and up to the date of this Report. No Director had an interest in any contracts with the Company during the period or subsequently.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration

Directors' Remuneration Report continued

Policy and Policy Implementation summarises, as applicable, for the year ended 31 December 2018:

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

Robert Lister
Chairman

7 March 2019

Report of the Audit Committee

The Audit Committee ("the Committee") presents its Report for the year ended 31 December 2018.

Committee Composition

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

- to review the annual and half yearly financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements;
- to assess whether the annual report and financial statements, taken as a whole, is fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to review the effectiveness of the internal control and risk management systems on which the Company is reliant and to consider annually the need for the Company to have its own internal audit function;
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible wrong-doings in matters of financial reporting or other matters;
- to consider the appointment, reappointment, remuneration and terms of engagement of the external auditor;
- to review annually the external auditor's independence, objectivity, effectiveness, resources and qualification; and
- to develop and implement a policy on the engagement of the external auditor to supply non-audit services. Non-audit fees of £1,500 (excluding VAT) are payable to the Auditor during the year ended 31 December 2018 in respect of filing the annual corporation tax return in a prescribed electronic format.

Activities During the Year

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

Review of Internal Control Systems and Risk

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

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

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

In addition, the Board has adopted its own risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers (see pages 5 to 6). A monitoring system is undertaken whereby the controls to mitigate these risks, and the impact of the residual risks, are assessed on a regular basis.

Note 17 to the financial statements provides further information on financial risks. The key components designed to provide effective internal control are outlined below:

- the Manager prepares monthly forecasts and management accounts, covering investment activities and financial matters, which allow the Board to assess the Company's activities and review its performance;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers. The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, to whom it

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

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

Significant Accounting Issues

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

Other Accounting Issues

Other accounting issues considered by the Committee included:

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

Review of Auditor

Ernst & Young LLP were appointed as the Company's auditor with effect from 28 April 2017. The Committee has reviewed and is satisfied with the independence and the effectiveness of the auditor, Ernst & Young LLP ("EY"), as follows:
- The auditor reports on an annual basis the steps it takes to ensure its independence and objectivity and confirms that it has complied with the relevant UK independence guidelines. The level of non-audit services provided by the auditor is assessed.
- The Committee considers the experience, continuity and tenure of the audit team, including the audit partner. The audit team consists of suitably experienced staff with knowledge of the investment trust sector and there is a process in place for the rotation of the audit partner.
- The Committee assesses the level of audit service annually. The audit plan is reviewed well in advance and subsequent audit findings are reported comprehensively in a timely manner and are resolved satisfactorily. The auditor has a constructive working relationship with both the Board and the Manager.

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

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

David Fletcher
Chairman of the Audit Committee

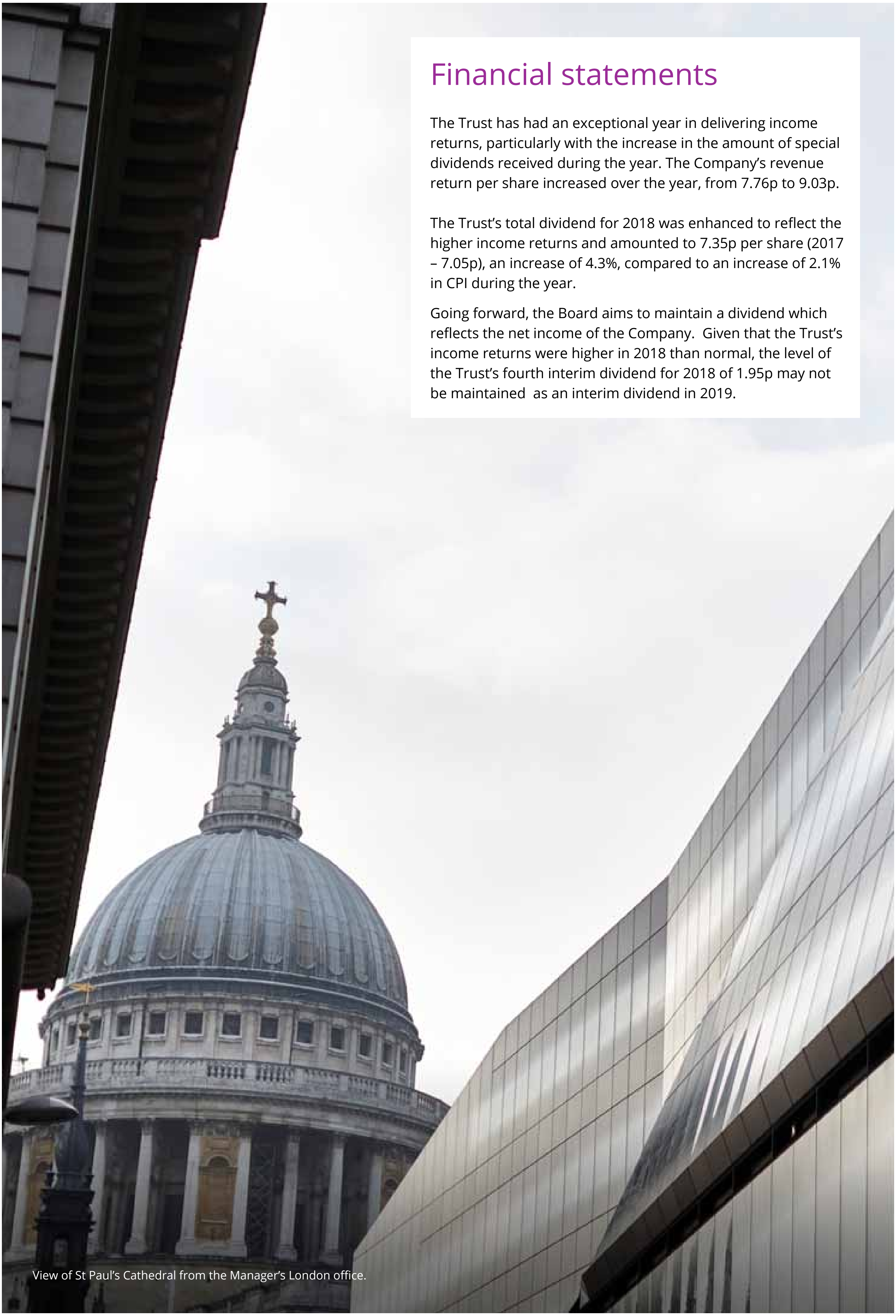
7 March 2019

Financial statements

The Trust has had an exceptional year in delivering income returns, particularly with the increase in the amount of special dividends received during the year. The Company's revenue return per share increased over the year, from 7.76p to 9.03p.

The Trust's total dividend for 2018 was enhanced to reflect the higher income returns and amounted to 7.35p per share (2017 – 7.05p), an increase of 4.3%, compared to an increase of 2.1% in CPI during the year.

Going forward, the Board aims to maintain a dividend which reflects the net income of the Company. Given that the Trust's income returns were higher in 2018 than normal, the level of the Trust's fourth interim dividend for 2018 of 1.95p may not be maintained as an interim dividend in 2019.



View of St Paul's Cathedral from the Manager's London office.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

Robert Lister
Chairman
7 March 2019

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

Opinion

We have audited the financial statements of Aberdeen Smaller Companies Income Trust PLC (the 'Company') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:
- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the annual report set out on pages 5 and 6 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 5 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 26 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 8 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income • Risk of incorrect valuation and defective title to the investment portfolio
Materiality	• Overall materiality of £0.63m which represents 1% of equity shareholders' funds (2017: £0.75m)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income Refer to the Report of the Audit Committee (page 32); Note 2 - Accounting policies (page 46); and Note 3 – Income (page 48). The income received for the year to 31 December 2018 was £2.60m (2017: £2.31m), being revenue from listed investments amounting to £2.51m (£2.21m) and revenue from fixed interest securities amounting to £0.09m (2017: £0.10m). Included within the listed investments revenue figure above were special dividends totalling £0.26m. A further £1.18m of special dividends were capital in nature and included in the capital column of the Statement of Comprehensive Income. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment. In addition to the above, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.	*We have performed the following procedures:* We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends by reviewing their internal controls reports and performing our walkthrough procedures to evaluate the design and implementation of controls. We agreed a sample of dividends received from the income report to the corresponding announcement made by the investee company. We recalculated the dividend amount receivable using exchange rates obtained from an independent data vendor and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount. We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 December 2018. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, where paid. We reviewed the income report and the acquisition and disposal report produced by the Administrator to identify special dividends received or accrued in excess of our revenue testing threshold. The Company received three special dividends above our testing threshold. For the three special dividends above our testing threshold we reviewed the underlying circumstances and motives for the payments to verify the classification of the special dividends as revenue or capital.	*The results of our procedures are:* We have no issues to communicate with respect to our procedures performed over the risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income.
Risk of incorrect valuation and defective title of the investment portfolio Refer to the Report of the Audit Committee (page 32); and Note 2 - Accounting policies (page 46)	*We performed the following procedures:* We obtained an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing by performing a walkthrough.	*The results of our procedures are:* We have no issues to communicate with respect to our procedures performed

The valuation of the portfolio at 31 December 2018 was £66.84m (2017: £81.67m) consisting of listed equities of £64.86m (2017: £78.64m) and fixed income securities of £1.98m (2017: £3.03m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date.	For all listed investments in the portfolio, we compared the market values and exchange rates applied to an independent pricing vendor. We reviewed the price exception and stale pricing reports produced by the Administrator to highlight and investigate any unexpected price movements in investments held as at the year-end. We also assessed the liquidity of the investment portfolio through analysing the average trading volume of the investments. We agreed the Company's investments to the independent confirmation received from the Company's Depositary/Custodian as at 31 December 2018.	over the risk of incorrect valuation and defective title to the investment portfolio.

There have been no changes to the areas of key focus raised in the above risk table from the prior year.

An overview of the scope of our audit

Tailoring the scope

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

Our application of materiality

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

Materiality

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

We determined materiality for the Company to be £0.63m (2017: £0.75m) which is 1% (2017: 1%) of equity shareholders' funds. We believe that equity shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality (2017: 50% of our planning materiality),

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namely £0.47m (2017: £0.38m). We have set the performance materiality to 75% of our planning materiality as this is no longer the first year audit of the Company and we did not identify any significant exceptions in the prior year.

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income, of £0.10m (2017: £0.09m) being 5% of the profit before tax.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.03m (2017: £0.04m) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 34 –** the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 31 to 32 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 24–** the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are IFRS, the Companies Act 2006, the AIC SORP, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate income recognition through incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.

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- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

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

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company with effect from 28 April 2017 to audit the financial statements of the Company for the year ending 31 December 2017 and subsequent financial periods, and signed an engagement letter on 17 September 2017.
- The period of total uninterrupted engagement is 2 years, covering periods from our appointment through to the period ending 31 December 2018.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

7 March 2019

Notes:

1. The maintenance and integrity of the Aberdeen Smaller Companies Income Trust PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income

		Year ended 31 December 2018			Year ended 31 December 2017		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	10	–	(12,256)	(12,256)	–	17,278	17,278
Currency gains		–	1	1	–	1	1
Revenue	3						
Dividend income		2,513	–	2,513	2,212	–	2,212
Interest income from investments		87	–	87	104	347	451
Other income		4	–	4	2	–	2
		2,604	(12,255)	(9,651)	2,318	17,626	19,944
Expenses							
Investment management fee	4	(166)	(389)	(555)	(167)	(390)	(557)
Other administrative expenses	5	(374)	–	(374)	(371)	–	(371)
Finance costs	6	(56)	(130)	(186)	(50)	(116)	(166)
Profit/(loss) before tax		2,008	(12,774)	(10,766)	1,730	17,120	18,850
Taxation	7	(11)	–	(11)	(14)	–	(14)
Profit/(loss) attributable to equity holders	9	**1,997**	**(12,774)**	**(10,777)**	**1,716**	**17,120**	**18,836**
Return per Ordinary share (pence)	9	**9.03**	**(57.77)**	**(48.74)**	**7.76**	**77.43**	**85.19**

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

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

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

All items in the above statement derive from continuing operations.

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

Balance Sheet

	Notes	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Non-current assets			
Equities		61,663	74,544
Convertible preference shares		954	1,004
Corporate bonds		1,026	2,028
Preference shares		3,200	4,097
Securities at fair value	10	66,843	81,673
Current assets			
Cash and cash equivalents		3,071	582
Other receivables	11	343	330
		3,414	912
Current liabilities			
Bank loan	12	(2,000)	(7,000)
Trade and other payables	12	(222)	(164)
		(2,222)	(7,164)
Net current assets/(liabilities)		1,192	(6,252)
Total assets less current liabilities		68,035	75,421
Non-current liabilities			
Bank loan	13	(4,983)	–
Net assets		**63,052**	**75,421**
Share capital and reserves			
Called-up share capital	15	11,055	11,055
Share premium account		11,892	11,892
Capital redemption reserve		2,032	2,032
Capital reserve		34,959	47,733
Revenue reserve		3,114	2,709
Equity shareholders' funds		**63,052**	**75,421**
Net asset value per Ordinary share (pence)	16	**285.18**	**341.12**

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2019 and were signed on its behalf by:

R. Lister
Chairman

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

Statement of Changes in Equity

Year ended 31 December 2018

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

Year ended 31 December 2017

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2016		11,055	11,892	2,032	30,613	2,541	58,133
Profit for the year		–	–	–	17,120	1,716	18,836
Dividends paid in the year	8	–	–	–	–	(1,548)	(1,548)
As at 31 December 2017		**11,055**	**11,892**	**2,032**	**47,733**	**2,709**	**75,421**

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

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

Cash Flow Statement

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities		
Dividend income received	2,498	2,152
Interest income received	90	117
Other income received	4	2
Investment management fee paid	(526)	(585)
Other cash expenses	(370)	(365)
Cash generated from operations	1,696	1,321
Interest paid	(162)	(182)
Overseas taxation suffered	(27)	(26)
Net cash inflows from operating activities	1,507	1,113
Cash flows from investing activities		
Purchases of investments	(14,690)	(15,198)
Sales of investments	17,295	15,667
Net cash inflow from investing activities	2,605	469
Cash flows from financing activities		
Loan repaid	(7,000)	–
Loan drawndown	7,000	–
Costs relating to drawdown of loan	(32)	–
Equity dividends paid	(1,592)	(1,548)
Net cash outflow from financing activities	(1,624)	(1,548)
Net increase in cash and cash equivalents	**2,488**	**34**
Analysis of changes in cash and cash equivalents during the year		
Opening balance	582	547
Currency gains	1	1
Increase in cash and cash equivalents as above	2,488	34
Closing balances	**3,071**	**582**

Notes to the Financial Statements

1. Principal activity

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

2. Accounting policies

(a) Basis of accounting

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

The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, for the above reasons, they continue to adopt the going concern basis in preparing the financial statements.

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

Where presentational guidance set out in the Statement of Recommended Practice ("SORP"): 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies ("AIC"), is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP issued in November 2014 and updated in February 2018 with consequential amendments.

Significant accounting judgements, estimates and assumptions

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

New and amended accounting standards and interpretations

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

– IFRIC 23 – Uncertainty over Income Tax Treatments

In addition, under the Annual Improvements to IFRSs 2015 – 2017 Cycle, a number of Standards are included for annual periods beginning on or after 1 January 2019.

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

(b) Investments

The Company has adopted the classification and measurement provisions of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes changes to classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

The adoption of IFRS 9 did not result in any change to the classification or measurement of financial instruments in either the current or prior year. The Company's investments remain classified as fair value through profit or loss. Under IAS 39 the Company carried its investments at fair value through profit or loss under a designation option; on adoption of IFRS 9, the investments are classified as fair value through profit or loss.

The Company classifies its investments based on their contractual cash flow characteristics and the Company's business model for managing the assets. The business model, which is the determining feature, is such that the portfolio of investments is managed, performance and risk is evaluated, on a fair value basis. The Manager is also compensated based on the fair value of the Company's assets. Consequently, all investments are measured at fair value through profit or loss.

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

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

(c) Income

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

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

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

Underwriting commission is recognised when the underwriting services are provided and is taken to revenue, unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment.

(d) Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% to revenue and 70% to capital (2017 – same), in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. This allocation is reviewed on a regular basis.

(e) Borrowings

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

(f) Taxation

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

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

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

(g) Foreign currencies

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

(h) Nature and purpose of reserves

Share premium account

The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising ordinary shares of 50p per share.

Capital redemption reserve

The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital.

Capital reserve

This reserve reflects any gains or losses on investments realised in the period along with any increases and decreases in the fair value of investments held that have been recognised in the Statement of Comprehensive Income. These include gains and losses from foreign currency exchange differences.

Additionally, expenses, including finance costs, are charged to this reserve in accordance with (e) above.

Revenue reserve

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

(i) Dividends payable

Interim dividends are recognised in the financial statements in the period in which they are paid.

(j) Segmental reporting

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

3. Income	**2018 £'000**	**2017 £'000**
Income from investments		
Dividend income from UK equity securities	1,912	1,746
Dividend income from overseas equity securities	349	324
Stock dividends from UK equity securities	31	–
Property income distributions	221	142
	2,513	2,212
Interest income from investments	87	104
	2,600	2,316
Other income		
Bank interest	4	–
Underwriting commission	–	2
Total revenue income	**2,604**	**2,318**

As per note 2(c), the Company amortises the premium or discount on acquisition on debt securities against its capital reserve. For 2018 this represented £nil (2017 – £1,000) which has been reflected in the capital column of the Statement of Comprehensive Income.

	2018			**2017**		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
4. Management fee	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Management fee	**166**	**389**	**555**	**167**	**390**	**557**

For the year ended 31 December 2018 management services were provided by Aberdeen Standard Fund Managers Limited ("ASFML"). The management fee was calculated at an annual rate of 0.75% of the net assets of the Company adding back bank debt, calculated and paid monthly until 18 April 2018. With effect from 19 April 2018, the Company and the Manager agreed that the management fee be calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. The balance due to ASFML at the year end was £80,000 (2017 – £52,000). The fee is allocated 30% (2017 – 30%) to revenue and 70% (2017 – 70%) to capital.

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

5. Other administrative expenses	2018 £'000	2017 £'000
Directors' fees	107	107
Auditor's remuneration:		
– fees payable for the audit of the annual accounts	19	19
– fees payable for iXBRL tagging services	2	2
Promotional activities	64	59
Legal and professional fees	21	31
Registrars' fees	18	18
Printing and postage	20	20
Broker fees	36	36
Directors' & Officers' liability insurance	6	7
Trade subscriptions	26	26
Other expenses	55	46
	374	**371**

Expenses of £64,000 (2017 – £59,000) were paid to ASFML in respect of the promotion of the Company. The balance outstanding at the year end was £16,000 (2017 – £15,000).

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

	2018			2017		
	Revenue	Capital	Total	Revenue	Capital	Total
6. Finance costs	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	**56**	**130**	**186**	**50**	**116**	**166**

7. Taxation

(a) Analysis of charge for the year	2018			2017		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Overseas withholding tax	11	–	11	14	–	14
Total tax charge for the year	**11**	**–**	**11**	**14**	**–**	**14**

(b) Factors affecting tax charge for the year

The UK corporation tax rate was 19% throughout the year (2017 – effective rate of 19.25%). The tax assessed for the year is lower than the corporation tax rate. The differences are explained below:

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Profit/(loss) before tax	2,008	(12,774)	(10,766)	1,730	17,120	18,850
Taxation of profit/(loss) at the effective standard rate of corporation tax	382	(2,427)	(2,045)	333	3,296	3,629
Effects of:						
Non taxable UK dividend income	(369)	–	(369)	(348)	–	(348)
Capital losses/(gains) disallowed for the purposes of corporation tax	–	2,329	2,329	–	(3,393)	(3,393)
Non taxable overseas income not subject to tax	(66)	–	(66)	(62)	–	(62)
Excess management expenses not utilised	53	98	151	77	97	174
Irrecoverable overseas withholding tax	11	–	11	14	–	14
Total tax charge for the year	**11**	**–**	**11**	**14**	**–**	**14**

(c) Factors that might affect future tax charges

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

At the period end, after offset against income taxable on receipt, there is a potential deferred tax asset of £2,393,771 (2017 – £2,258,731) in relation to surplus management expenses. It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

8. Dividends	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for the year ended 31 December 2017 of 1.80p (2016 – 1.75p) per share	398	387
Three interim dividends for the year ended 31 December 2018 totalling 5.40p (2017 – 5.25p) per share	1,194	1,161
	1,592	**1,548**

The fourth interim dividend of 2018 of 1.95p per share has not been included as a liability in these financial statements.

The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £1,997,000 (2017 – £1,716,000).

	2018 £'000	2017 £'000
Three interim dividends for the year ended 31 December 2018 totalling 5.40p (2017 – 5.25p) per share	1,194	1,161
Fourth interim dividend for the year ended 31 December 2018 of 1.95p (2017 – 1.80p) per share	431	398
	1,625	**1,559**

9. **Earnings per Ordinary share**	2018 p	2017 p
Revenue return	9.03	7.76
Capital return	(57.77)	77.43
Net return	**(48.74)**	**85.19**

The returns per share are based on the following figures:

	2018 £'000	2017 £'000
Revenue return	1,997	1,716
Capital return	(12,774)	17,120
Net return	**(10,777)**	**18,836**
Weighted average number of shares in issue	**22,109,765**	**22,109,765**

10. **Non–current assets – securities at fair value**	2018 £'000	2017 £'000
Listed on recognised stock exchanges:		
United Kingdom	65,843	79,768
Overseas	1,000	1,905
	66,843	**81,673**

	2018 £'000	2017 £'000
Opening fair value	81,673	64,517
Investment holdings gains	(29,015)	(16,838)
Opening book cost	52,658	47,679
Purchases	14,726	15,198
Amortised cost adjustments to fixed interest securities	–	347
Sales – proceeds	(17,300)	(15,667)
Sales – net gains	861	5,101
Closing book cost	50,945	52,658
Closing investment holdings gains	15,898	29,015
Closing fair value	**66,843**	**81,673**

(Losses)/gains on investments	2018 £'000	2017 £'000
Net realised gains on sales	861	5,101
Movement in fair value	(13,117)	12,177
(Losses)/gains on investments	**(12,256)**	**17,278**

Transaction costs

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

	2018 £'000	2017 £'000
Purchases	74	64
Sales	11	9
	85	**73**

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

11. Other receivables	2018 £'000	2017 £'000
Amounts due from brokers	5	–
Accrued income & prepayments	338	330
	343	**330**

None of the above amounts are overdue.

12. Current liabilities	2018 £'000	2017 £'000
(a) Short-term loan	2,000	2,000
Fixed rate loan	–	5,000
	2,000	**7,000**

On 27 April 2018 the Company entered into a £10 million loan facility with Royal Bank of Scotland International Holdings (RBSi) which comprised of two £5 million traches. Tranche A is a 3 year £5 million multi-currency revolving credit facility and £2 million was drawn down at 31 December 2018 at a rate of 1.72225%. Tranche B is a 5 year £5 million fixed rate loan facility and was fully drawn down on 28 April 2018. The interest on Tranche B is fixed at 2.825% per annum payable quarterly in arrears. At the date of this Report the Company had drawn down £2 million on Tranche A at a rate of 1.67888%.

Previously the Company had a £10 million loan facility with State Street Bank which comprised of two £5 million tranches; Tranche A was fixed rate for three years and Tranche B was at a variable rate for five years. Tranche A was drawn down in full and £2 million was drawn down on Tranche B. Both tranches were repaid in full on 27 April 2018.

The Directors are of the opinion that the fair value of the short term bank loan at 31 December 2018 is not materially different from the book value.

(b) Trade and other payables	2018 £'000	2017 £'000
Investment management fee	80	52
Interest payable	32	14
Amounts due to brokers	5	–
Sundry creditors	105	98
	222	**164**

13. Non-current liabilities	2018 £'000	2017 £'000
Fixed rate loan	**4,983**	**–**

All financial liabilities are measured at amortised cost. The fair value of the long term fixed rate loan at 31 December 2018 is estimated to be £5,161,000 (2017- N/A).

14. Analysis of changes in financing liabilities during the year

The following table shows the movements during the year of financing liabilities in the Balance Sheet:

	2018 £'000	2017 £'000
Opening balance at 1 January	7,000	2,000
Net cash flows	(32)	5,000
Amortisation of arrangement costs	15	–
Closing balance at 31 December	**6,983**	**7,000**

15. Called-up share capital	Ordinary shares of 50 pence each Number	£'000
Allotted and fully paid		
At 31 December 2018 and 31 December 2017	22,109,765	11,055

16. Net asset value per share

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

	2018	2017
Net asset value attributable (£'000)	63,052	75,421
Number of Ordinary shares in issue	22,109,765	22,109,765
Net asset value per share (p)	285.18	341.12

17. Financial instruments and risk management

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

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

Risk management framework

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

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

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

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

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

Risk management

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

(i) Market risk

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

Interest rate risk

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

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

Management of the risk

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

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

Interest rate profile

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

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

As at 31 December 2017	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non–interest bearing
Assets					
Convertible preference shares	2.50	10.75	1,004	–	–
Corporate bonds	21.60	5.00	2,028	–	–
Preference shares	–	5.22	4,097	–	–
Cash	–	–	–	582	–
Total assets	–	–	7,129	582	–
Liabilities					
Short-term bank loan	0.08	1.81	(2,000)	–	–
Fixed rate bank loan	0.33	2.47	(5,000)	–	–
Total liabilities	–	–	(7,000)	–	–
Total	**–**	**–**	**129**	**582**	**–**

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

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

The preference shares above have no fixed redemption date.

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

All financial liabilities are measured at amortised cost.

Interest rate sensitivity

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

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

– profit before tax for the year ended 31 December 2018 would decrease by approximately £39,000 (2017 – £64,000 decrease) in relation to the Company's exposure to interest rates on its floating rate cash balances and bank loans. These figures have been calculated based on cash positions and bank loans at each year end; and
– profit before tax for the year ended 31 December 2018 would decrease by £117,000 (2017 – £235,000 decrease) in relation to the Company's exposure to interest rates on its fixed interest securities.

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

– profit before tax for the year ended 31 December 2018 would increase by approximately £39,000 (2017 – £64,000 increase) based on the Company's exposure to interest rates on its floating rate cash balances and bank loans. These figures have been calculated based on cash positions and bank loans at each year end; and
– profit before tax for the year ended 31 December 2018 would increase by £117,000 (2017 – £235,000) in relation to the Company's exposure to interest rates on its fixed interest securities.

In the opinion of the Directors, the above sensitivity analyses would not necessarily reflect the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives. The risk parameters used will also fluctuate depending on the current market perception.

Price risk

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

Management of the risk

It is the 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 to specific sectors and the stock selection process, as detailed on page 66, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Scandanavian Tobacco, which is traded on the Copenhagen exchange.

Price sensitivity

If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2018 would have increased by £6,262,000 (2017 – £7,555,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2018 would have decreased by £6,262,000 (2017 – £7,555,000).This is based on the Company's equity portfolio and convertible preference shares held at each year end.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair value or from the inability to generate cash inflows as required.

Management of the risk

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

Maturity profile

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

At 31 December 2018	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	Within 5 years £'000
Trade and other payables	(222)	–	–	–	–	–
Bank loans	(2,000)	–	–	–	(5,000)	–
Interest on bank loans	(144)	(141)	(141)	(109)	(70)	–
	(2,334)	**(141)**	**(141)**	**(109)**	**(5,070)**	**(7,795)**

At 31 December 2017	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	Within 5 years £'000
Trade and other payables	(164)	–	–	–	–	–
Bank loan	(7,000)	–	–	–	–	–
Interest on bank loans	(70)	–	–	–	–	–
	(7,234)	**–**	**–**	**–**	**–**	**–**

(iii) Credit risk

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

Management of the risk

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

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- where transactions involving derivatives are entered into, these are only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out on a delivery versus payment basis with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- where transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board. The Company does not currently use derivatives. The Manager requires the Board's approval to implement the use of derivatives;
- cash is held only with reputable banks with high quality external credit enhancements.

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

Credit risk exposure

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

	2018		2017	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Quoted convertibles, bonds and preference shares at fair value through profit or loss	5,180	5,180	7,129	7,129
Current assets				
Accrued income	338	338	330	330
Cash and cash equivalents	3,071	3,071	582	582
	8,589	**8,589**	**8,041**	**8,041**

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

Fair value of financial assets and liabilities

The book value of cash at bank and short-term bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices and have been categorised as Level 1 and Level 2 within the Fair Value Hierarchy table on pages 59 and 60. For details of bond maturities and interest rates, see page 20. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity. The fair value of the long term fixed rate bank loan is disclosed in note 12 on page 52.

Gearing

The Company has in place a £7 million unsecured loan. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate.

18. Income enhancement

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

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

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

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

	2018		2017	
	Revenue	Capital	Revenue	Capital
	£'000	£'000	£'000	£'000
Finance costs arising on bank loan finance	(28)	(65)	(25)	(58)
Return on corresponding investments	64	(64)	3	(3)
Amortised cost adjustment charged to capital on debt securities	–	–	1	(1)
	36	**(129)**	**(21)**	**(62)**

19. Fair value hierarchy

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

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

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

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

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 December 2018 as follows:

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

As at 31 December 2017

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	74,544	–	–	74,544
Quoted convertibles, bonds and preference shares	b)	–	7,129	–	7,129
Total		**74,544**	**7,129**	**–**	**81,673**

a) **Quoted equities**

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

b) **Quoted convertibles, bonds and preference shares**

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

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

20. Related party transactions

Directors fees and interests

Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on page 29.

Transactions with the Manager

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

21. Capital management policies and procedures

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

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

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

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

– the level of equity shares in issue; and

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

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

The Company does not have any externally imposed capital requirements.

Alternative Performance Measures

Alternative Performance Measures

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

Total return

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

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 December 2018 and 31 December 2017.

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

2017	Dividend rate	NAV	Share price
31 December 2016	N/A	262.93p	203.50p
5 January 2017	1.75p	263.38p	203.50p
6 April 2017	1.75p	280.47p	212.50p
6 July 2017	1.75p	295.78p	228.63p
5 October 2017	1.75p	321.55p	269.50p
31 December 2017	N/A	341.12p	288.00p
Total return		**32.9%**	**46.0%**

Adjusted Net Asset Value per Ordinary Share

The adjusted net asset value per Ordinary share is calculated as follows;

	2018	2017
NAV per Balance Sheet	285.18p	341.12p
Fourth interim dividend per Ordinary share	(1.95p)	(1.80p)
	283.23p	**339.32p**

Discount to Adjusted Net Asset Value per Ordinary Share

The amount by which the market price per Ordinary share of 224.00p (2017 – 288.00p) is lower than the adjusted net asset value per Ordinary share, expressed as a percentage of the adjusted net asset value per Ordinary share.

Dividend cover

Revenue return per share of 9.03p (2017 – 7.76p) divided by dividends per share of 7.35p (2017 – 7.05p) expressed as a ratio.

Net gearing

Net gearing measures the total borrowings of £6,983,000 (31 December 2017 – £7,000,000) less cash and cash equivalents of £3,071,000 (31 December 2017 – £582,000) divided by shareholders' funds of £63,052,000 (31 December 2017 – £75,421,000), expressed as a percentage.

Ongoing charges

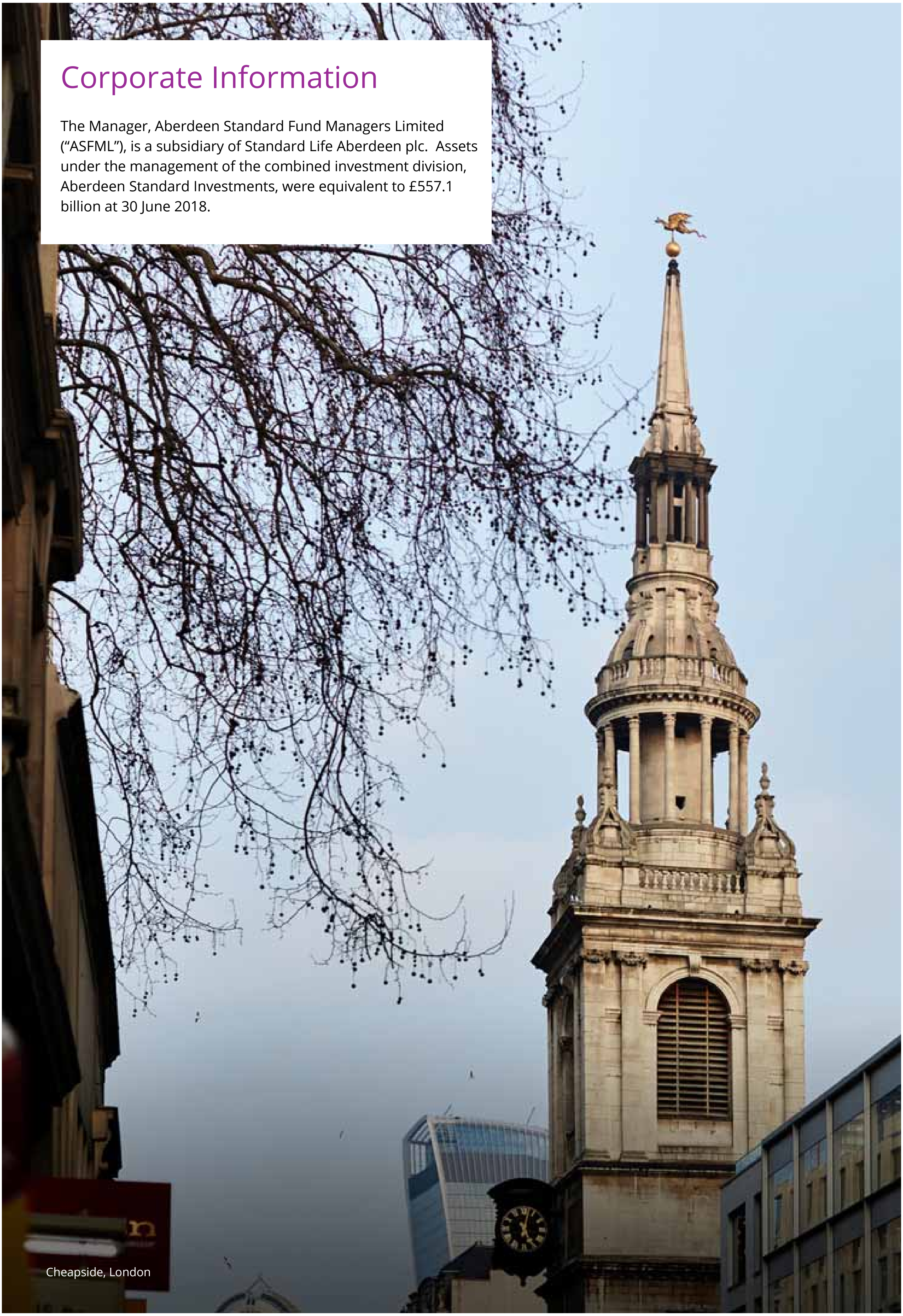
Ongoing charges is considered to be an alternative performance measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average daily net asset values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

	2018	2017
Investment management fees (£'000)	555	557
Administrative expenses (£'000)	374	371
Less: non-recurring charges (£'000)	–	(26)
Ongoing charges (£'000)	**929**	**902**
Average net assets (£'000)	**72,296**	**66,656**
Ongoing charges ratio	**1.28%**	**1.35%**

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations.

Corporate Information

The Manager, Aberdeen Standard Fund Managers Limited ("ASFML"), is a subsidiary of Standard Life Aberdeen plc. Assets under the management of the combined investment division, Aberdeen Standard Investments, were equivalent to £557.1 billion at 30 June 2018.



Cheapside, London

Information about the Manager

Aberdeen Standard Fund Managers Limited

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

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

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

The ASI Smaller Companies team consists of 8 investment professionals all based in Edinburgh; 5 investment managers/analysts, 2 analysts, and 1 quantative analyst who controls the "Matrix". The average investment experience is 16 years.

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

The Investment Team Senior Managers

Harry Nimmo (MA Hons), MBA, Diploma in Surveying

Harry is head of the Smaller Companies equities team within ASI. He has over 30 years of investment management experience with ASI.

Abby Glennie (MA Hons) CFA

Abby is an Investment Director within ASI Smaller Companies team with responsibilty for research and analysis of UK listed stocks in the Small and Mid cap sectors. She has over 11 years of investment management experience and joined ASI in 2013.

Information about the Manager continued

Investment Process

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

Investment characteristics

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

1. Quality

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

2. Sustainable growth

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

3. Momentum

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

4. Concentrate your efforts

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

5. Invest for the long term

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

6. Management longevity

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

7. Valuation aware

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

Investor Information

How to Invest

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

Aberdeen Standard Investment Plan for Children

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

Aberdeen Standard Investment Trust Share Plan

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

Aberdeen Standard Investment Trust ISA

An investment of up to £20,000 can be made in the tax years 2018/19 and 2019/20.

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

ISA Transfer

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

Dividend Tax Allowance

The annual tax-free allowance on dividend income is £2,000 for the 2018/19 and 2019/20 tax years. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Keeping You Informed

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

Shareholder Enquiries

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

Aberdeen Standard Investment Trusts
PO Box 11020
Chelmsford

Investor Information continued

Essex CM99 2DB

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

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

Electronic communications

The Company is considering taking advantage of the ability, under its articles of association, to communicate electronically with shareholders as well as making documents available on its website as an alternative to sending out paper versions and enabling electronic voting. Paper copies will still be made available to those shareholders who wish to continue to receive this format. Increased use of electronic communications will deliver savings to the Company in terms of administration, printing and postage costs, as well as speeding up the provision of information to shareholders and making voting at shareholder meetings easier. The reduced use of paper will also have environmental benefits. Further information on this matter will be provided in due course.

Company's Registrars

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

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

Tel: 0371 384 2030.
(lines are open 8.30 am to 5.30 pm, Monday to Friday; calls may be recorded and monitored randomly for security and training purposes).

Online Dealing providers and platforms

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company, such as self-invested personal persion (SIPP). Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include: AJ Bell You Invest; Alliance Trust Savings; Barclays Stockbrokers; Charles Stanley Direct; Halifax Share Dealing; Fidelity Personal Investing; Hargreave Hale; Hargreaves Lansdown; Idealing; Interactive Investor; Selftrade; The Share Centre; Stocktrade.

Discretionary Private Client Stockbrokers

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

Financial Advisers

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

Regulation of Stockbrokers

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

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

PRIIPS (Packaged Retail and Insurance-based Investment Products)

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

Key Information Document ("KID")

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

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking exposure to smaller companies in the United Kingdom, and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

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

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

Investor Warning

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

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

Note

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

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

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

The information on pages 67 to 69 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the FCA.

Financial Calendar

31 December 2018	Company's year end
25 January 2019	Fourth interim dividend 2018 paid
8 March 2019	Annual results announcement
April 2019	First interim dividend 2019 payable
2 May 2019	Annual General Meeting at 12.00 noon
July 2019	Second interim dividend 2019 payable
September 2019	Half yearly results announcement and report published
October 2019	Third interim dividend 2019 payable

Glossary of Terms and Definitions

Aberdeen Standard Investments	Aberdeen Standard Investments ("ASI") is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.
ASFML or AIFM or Manager	Aberdeen Standard Fund Managers Limited (ASFML) is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the alternative investment fund manager (AIFM) for the Company. It is authorised and regulated by the Financial Conduct Authority.
AAML or Investment Manager	Aberdeen Asset Managers Limited ("AAML" or "Investment Manager") is a subsidiary company of Standard Life Aberdeen plc which has been delegated responsibility for the Company's day-to-day investment management.
Alternative Performance Measures	An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
AIC	The Association of Investment Companies.
AIFMD or the Directive	The Alternative Investment Fund Managers Directive (AIFMD) is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Benchmark	This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the FTSE Small Cap excluding Investment Trusts Index. The index averages the performance of a defined selection of listed companies over specific time periods.
Closed-End Fund	A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
FCA	Financial Conduct Authority
Investment Trust	A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.
Key Information Document or KID	The Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.
Leverage	For the purposes of the Alternative Investment Fund Managers Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated

on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Net Asset Value ("NAV")	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Net Gearing/Cash	Net gearing/cash is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage.
Ongoing Charges	Ratio of expenses as percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.
PIDD	The pre-investment disclosure document made available by the AIFM in relation to the Company.
Premium	The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.
Price/Earnings (P/E) Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Standard Life Aberdeen plc or the Group	The Standard Life Aberdeen plc group of companies. Standard Life Aberdeen plc was formed by the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017.
Total Assets	Total Assets as per the balance sheet less current liabilities (before deducting prior charges as defined above).
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

General

Alternative Investment Fund Managers Directive Disclosures (unaudited)

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

There have been no material changes to the disclosures contained within the PIDD since its most recent update in March 2019.

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

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report on pages 4 to 8 , Note 17 to the Financial Statements and the PIDD, together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Aberdeen Standard Fund Managers Limited ("the AIFM");
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretaries, Aberdeen Asset Management PLC on request (see contact details on page 76) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2018 are available on the Company's website.

Leverage

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

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 December 2018	1.06:1	1.11:1

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

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty-seventh Annual General Meeting of the shareholders of Aberdeen Smaller Companies Income Trust PLC (the "Company") will be held at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Thursday 2 May 2019 at 12.00 noon to transact the following business:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 9 inclusive will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions:

Ordinary Business

1. To receive the reports of the Directors and auditor and the audited financial statements for the year to 31 December 2018.
2. To receive and adopt the Directors' Remuneration Report (except the Directors' Remuneration Policy) for the year to 31 December 2018.
3. To re-elect Robert Lister as a Director of the Company.
4. To re-elect David Fletcher as a Director of the Company.
5. To re-elect Dagmar Kent Kershaw as a Director of the Company.
6. To re-elect Barry Rose as a Director of the Company.
7. To re-appoint Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
8. To authorise the Directors to determine the remuneration of the auditor for the year to 31 December 2019.

Special Business

9. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,960, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.
10. That, subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power:
    (i) expires on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and
    (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to 10% of the Ordinary shares in issue.

    This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting" were omitted.
11. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with Section 701 of the

Companies Act 2006 (the "Act"), to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:

(i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);

(iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and

(iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 June 2020 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

By order of the Board
Aberdeen Asset Management PLC
Secretary

Registered office:
40 Princes Street
Edinburgh EH2 2BY

25 March 2019

Note

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.
2. A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Freepost RTHJ-CLLL-KBKU, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 6DA so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.
3. The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. 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.
8. The right to vote at a meeting is determined by reference to the Company's register of members two business days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.
9. As at close of business on 14 March 2019 (being the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 14 March 2019 is 22,109,765.
10. A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes (i) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.
11. Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.
12. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
13. No Director has a service contract with the Company. Copies of the Directors' letters of appointment are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the Company's registered office and for 15 minutes prior to, and at, the meeting.
14. Information regarding the Annual General Meeting is available from the Company's website; www.aberdeensmallercompanies.co.uk
15. As a member, shareholders have the right to put questions at the meeting relating to business being dealt with at the meeting.
16. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

Contact Addresses

Directors

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

Manager, Secretary and Registered Office

Alternative Investment Fund Manager

Aberdeen Standard Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH
(Authorised and regulated by the Financial Conduct Authority)

Investment Manager

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

Secretary and Registered Office

Aberdeen Asset Management PLC
40 Princes Street
Edinburgh EH2 2BY

Points of Contact

Manager - Customer Services Department

Telephone: 0808 500 0040
(Lines open 9.00 am to 5.00 pm, Monday to Friday)
Email: inv.trusts@aberdeen-asset.com

Registrar

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

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

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

Depositary

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

Brokers

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

Solicitors

Maclay Murray & Spens LLP

Auditor

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

United States Internal Revenue Service FATCA Registration Number ("GIIN")

DGR5S1.99999.SL.826

Legal Entity Identifier

213800J6D2TVHRGKBG24

Company Registration Number

SC137448 (Scotland)

Website

www.aberdeensmallercompanies.co.uk

Visit us online
aberdeensmallercompanies.co.uk