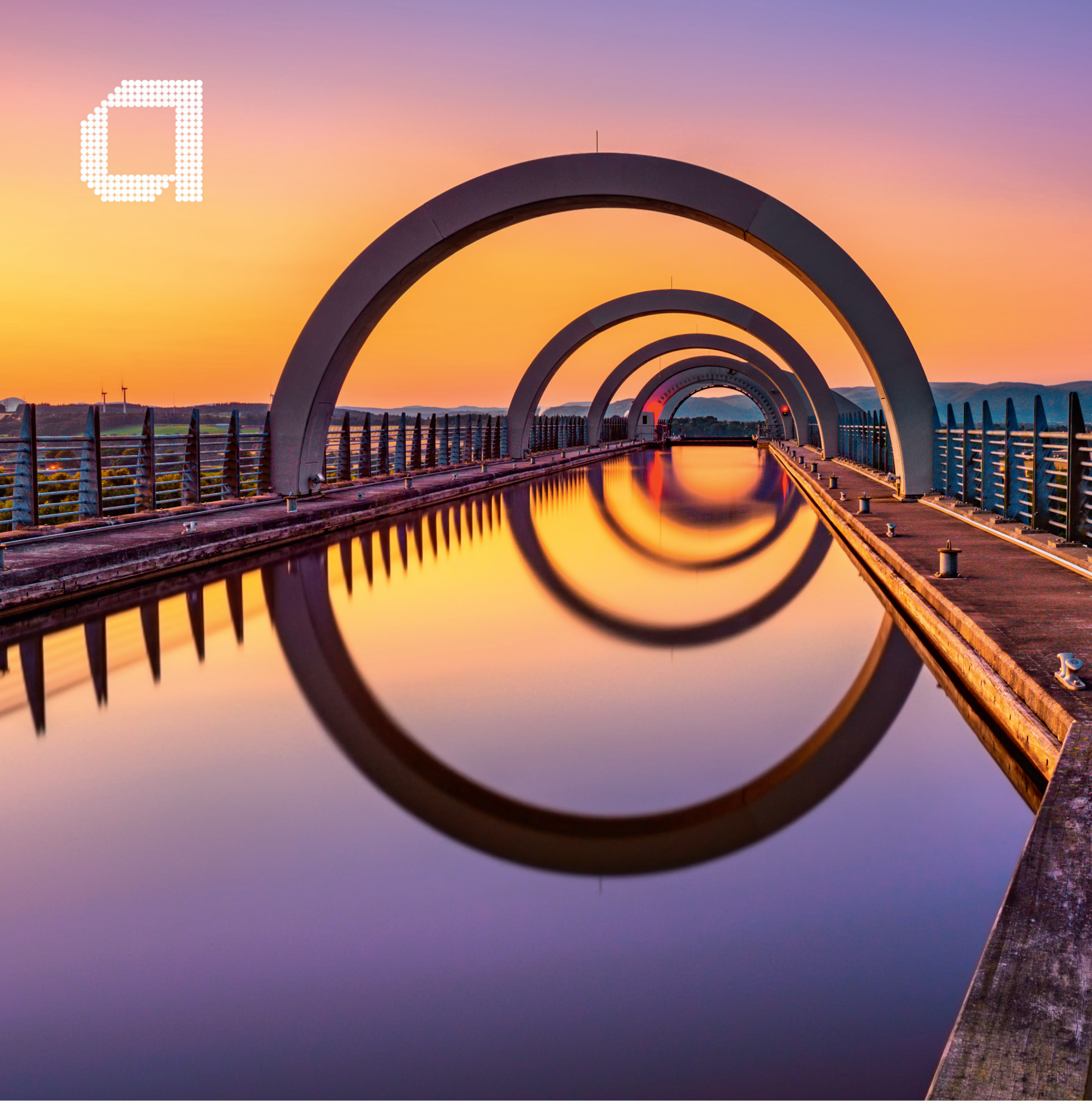

abrdn Smaller Companies Income Trust plc

Interim Report 30 June 2022

Hunting smaller companies for a stronger income

abrdnsmallercompaniesincome.co.uk

Contents

Investment Objective and Purpose

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

Benchmark index

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

Performance Highlights

Performance Highlights

Net asset value total return[A]
Six months ended 30 June 2022

–30.0%

Year ended 31 December 2021: +30.4%

Numis Smaller Companies ex Inv Trust Index
Six months ended 30 June 2022

–20.2%

Year ended 31 December 2021: +21.9%

Earnings per Ordinary share (revenue)
Six months ended 30 June 2022

6.10p

Six months ended 30 June 2021: 4.14p

Share price total return[A]
Six months ended 30 June 2022

–29.6%

Year ended 31 December 2021: +22.9%

Discount to net asset value[A]
As at 30 June 2022

15.7%

As at 31 December 2021: 15.3%

Net gearing[A]
As at 30 June 2022

4.8%

As at 31 December 2021: 4.5%

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 27 and 29.

Performance (total return)

	Six months ended 30 June 2022	1 year ended 30 June 2022	3 years ended 30 June 2022	5 years ended 30 June 2022
Share price[A]	**–29.6%**	–21.3%	–1.5%	+29.8%
Net asset value per Ordinary share[A]	**–30.0%**	–24.4%	–0.9%	+16.1%
Composite benchmark[B]	**–20.2%**	+17.2%	+3.2%	+0.3%

[A] Considered to be an Alternative Performance Measure. Further details can be found on page 29.
[B] Comprises the Numis Smaller Companies (exc Inv Trusts) from 1 January 2020 and the FTSE SmallCap Index (exc Inv Trusts) up to 31 December 2019.
Source: aFML, Lipper & Morningstar.

Financial Calendar, Dividends and Highlights

Payment dates of quarterly dividends	**January 2022** **April 2022** **July 2022** **October 2022**
Financial year end	**31 December 2022**
Expected announcement of results for year ending 31 December 2022	**March 2023**
Annual General Meeting	**4 May 2023**

Financial Highlights

	30 June 2022	31 December 2021	% change
Shareholders' funds (£'000)	**67,679**	97,840	–30.8
Net asset value per Ordinary share (with debt at par value)	**306.10p**	442.52p	–30.8
Share price (mid-market)	**258.00p**	375.00p	–31.2
Discount to net asset value per Ordinary share[A]	**15.7%**	15.3%	
Net gearing[A]	**4.8%**	4.5%	
Ongoing charges ratio[A]	**1.31%**	1.20%	

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 27 and 28.

"The first half of 2022 was an unremittingly poor half for global equity markets driven by the conflict in Ukraine, ongoing fears over high inflation and the risk of a global recession. This has resulted in a severe rotation from "growth" stocks into "value" stocks; an environment in which your Manager's Quality, Growth and Momentum process has been out of favour"

Chair's Statement

Performance

In my first statement as Chair of your Company, I would have liked to convey a more positive message on the Company's performance over the six month period to the end of June 2022. However, in what has been a very difficult time for smaller companies, the Company's net asset value returned -30.0%, versus a benchmark return of -20.2%.

Looking over a five year period, however, the Company continues to outperform the index; with a total return of +16.1% versus the composite benchmark of +0.3% (the Company's benchmark prior to 1 January 2020 was the FTSE Smaller Companies ex Investment Trust Index).

The first half of 2022 was an unremittingly poor half for global equity markets driven by the conflict in Ukraine, ongoing fears over high inflation and the risk of a global recession. This has resulted in a severe rotation from "growth" stocks into "value" stocks; an environment in which your Managers Quality, Growth and Momentum ("QGM") process has been out of favour. Correspondingly, the Company's share price has underperformed over the first six months. However, the quality focus inherent in the Investment Manager's investment process means that the companies in which they invest are resilient and capable of withstanding the current environment. The Board challenges these views appropriately and maintains confidence in the current approach over the longer term; nonetheless, we do understand that the performance in this period has been disappointing.

Discount

Despite fluctuations over the period, the Company's discount to net asset value as at 30 June 2022 was 15.7%, compared with 15.3% at the end of December 2021. The discount is regularly monitored by the Manager and the Board.

Company Gearing and Debt

The Company renewed its £5million revolving credit facility with the Royal Bank of Scotland International Limited, London Branch for a two year period in April 2022, and this sits alongside the Company's existing five year £5million fixed rate loan which expires in April 2023.

Over both facilities combined a total of £7million is currently drawn down. This takes the Company's gearing level to 4.8% at the end of June 2022, compared with 4.5% at the end of December 2021. The slightly higher figure does not reflect an increase in the Company's borrowing, merely a difference in the asset values on which the gearing figures are calculated.

Dividend

For the first and second quarters of 2022, the Board announced dividends of 2.40p each per Ordinary share (2021 – 2.15p each), an increase on last year's equivalent figures of 11.6%.

Investors have been through a volatile first half of the year; however, UK dividends had a strong outturn. After a solid first quarter, the second quarter did not disappoint. The total dividend pay-out jumped 38% year-on-year reaching £37 billion, according to Link dividend monitor. The Mining, Banks and Oil sectors, all of which are large cap dominated, accounted for three quarters of the second quarter's year-on-year increase. Mining was the biggest contributor, on the back of favourable cyclical fluctuations and rising mining profits.

The Board has been pleased with the resilience of the dividends the Company has received from its portfolio of smaller companies over the period and special dividends have been paid out from six of its holdings. In spite of solid dividend progression to date the Investment Manager believes that headwinds will increase for 2023. A recession might curtail the ability and willingness of many companies to raise dividends, as earnings come under pressure and balance sheets under more scrutiny in that environment. However, your Manager's focus on quality and balance sheet strength should provide relative resilience, with the Company's holdings often better placed versus peers to remain resilient when it comes to making their dividend payments.

The Company's Name Change and Manager's Rebranding

You may recall that we announced a change of name for the Company in our last Annual Report to abrdn Smaller Companies Income Trust plc, which took effect on 7 January 2022.

This followed a change of name by Standard Life Aberdeen plc to abrdn plc in July 2021 and an extensive rebranding and marketing campaign.

Since the period end the Manager's name has also been changed from Aberdeen Standard Fund Managers Limited to abrdn Fund Managers Limited ("aFML" or the "Manager"), with effect from 1 August 2022. We expect the Investment Manager and Company Secretary (Aberdeen Asset Managers Limited and Aberdeen Asset Management PLC respectively) to be renamed in the coming months.

Portfolio Manager

On 5 September 2022, the Company announced that Amanda Yeaman, who has been Co-Manager of the Company's portfolio alongside Abby Glennie since November 2020, will become Lead Manager, supported by Abby.

This change will take effect from 1 January 2023.

Board Changes & AGM

Rosalyn Breedy was appointed as an independent Non-Executive Director in January 2022 and elected to the Board by shareholders at the Company's Annual General Meeting ("AGM") on 5 May 2022. Robert Lister retired as an independent Non-Executive Director and Chairman of your Company at the conclusion of that meeting and the Board extends their thanks again to Robert for his stewardship during his tenure.

We were delighted to welcome shareholders to a physical AGM this year, following a two year hiatus due to government restrictions imposed as a result of the pandemic. For shareholders who were unable to attend or for those wishing to hear it again, your Manager's presentation, which was delivered at the meeting, has been uploaded to the Company's website, **abrdnsmallercompaniesincome.co.uk.**

Outlook

The economic and political backdrop is challenging. Central banks have reacted more forcefully than expected at the start of the year to stem rising inflation. At the time of writing, economic indicators are suggesting a recession although it remains to be seen how deep or prolonged that might be. There is political uncertainty in terms of any implications the new Prime Minister could have on fiscal policy and the UK's post-Brexit relationship with Europe. Furthermore, the war in Ukraine continues to undermine the mood of markets, with the threat of further interruptions to energy supplies and pricing uncertainty; a persistent concern. The combination of these factors is creating a persistently uncertain environment, which we anticipate will continue to weigh on markets. In a recessionary or continued low economic growth environment, your Board believes that the market will look more towards quality companies with resilience, reliability, visible revenue streams and strong balance sheets. In this case, on a relative basis, your Manager's quality focus should become increasingly attractive.

In an economic environment where growth becomes scarcer, it becomes more valuable, and your Manager's exposure to companies with QGM characteristics enables them to identify companies that can deliver sustained earnings growth in difficult macro-environments.

Dagmar Kent Kershaw
Chair
12 September 2022

Other Matters

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 together with a description of the mitigating actions it has taken. These can be summarised under the following headings:

- Investment and Market
- Investment Portfolio Management
- Gearing
- Income and Dividend
- Operational
- Major Market Event or Geopolitical Development

Details of these risks are provided in detail on pages 19 to 21 of the 2021 Annual Report.

The Board monitors these principal risks closely and has a process to identify and assess emerging risks, such as climate change and geopolitical developments.

The increasing political and economic uncertainty which could affect markets, particularly in reaction to higher interest rates and the volatility associated with the conflict in Ukraine, received particular focus in the reporting period.

The Board is also aware of the elevated threat posed by climate change and continues to monitor, through the Investment Manager, the potential risk that the companies in the portfolio may fail to adapt to the requirements imposed by climate change.

In all other respects, the Company's principal risks and uncertainties have not changed materially since the year end, nor are they expected to change in the second half of the financial year ended 31 December 2022.

Going Concern

In accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014, the Directors have undertaken a rigorous review and consider both that there are no material uncertainties and that the adoption of the going concern basis of accounting is appropriate. The Company's assets consist principally of equity shares in companies listed on the London Stock Exchange and in most circumstances are realisable within a short timescale.

The Directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future and at least twelve months from the date of approval of this Half Yearly Report. Given that the Company's portfolio comprises primarily "Level One" assets (listed on a recognisable exchange and realisable within a short timescale), and the Company's relatively low level of gearing, the Directors believe that adopting a going concern basis of accounting remains appropriate.

Directors' Responsibility Statement

The Directors are responsible for preparing the Half Yearly Financial Report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge:

- the condensed set of Financial Statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'
- the Interim Board Report includes a fair review of the information required by rule 4.2.7R of the Disclosure Guidance and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year)
- the Interim Board Report includes a fair review of the information required by 4.2.8R (being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company during that period; and any changes in the related party transactions described in the last Annual Report that could do so).

The Half Yearly Financial Report for the six months to 30 June 2022 comprises the Interim Board Report and a condensed set of financial statements.

For and on behalf of the Board
Dagmar Kent Kershaw,
Chair
12 September 2022

Investment Manager's Review

The Company delivered a NAV total return of -30.0%, underperforming the Numis Smaller Companies (ex-Investment Trusts) return of -20.2% for the six month period to 30 June 2022.

Equity markets

The UK stock market, as represented by the FTSE All-Share Index, fell by -4.6% over the first half of 2022, although the UK market remains one of the best-performing developed markets in 2022. The picture was more mixed beneath the negative headline figure, with shares of large FTSE 100 Index companies only falling by -1.0% but shares in the mid-sized companies of the FTSE 250 Index, which are typically more focused on the domestic UK economy, falling heavily, by -19.4%. Smaller companies were also particularly weak, with the Numis Smaller Companies (ex Investment Trusts) Index (total return) returning -20.39%.

The FTSE 100 Index is home to many energy and mining companies, whose shares have benefited from high commodity prices, particularly after Russia's invasion of Ukraine. However, the small cap market in the UK has sold off sharply, driven by the risk of trade where investors typically make a flight towards the perceived safety of larger cap areas. Smaller companies also do not benefit from the support of the large weightings in areas such as resources, banks and energy that are prevalent within the FTSE 100 Index.

Growth stocks in particular have underperformed in the rising rate environment, with information technology being one of the worst-performing sectors over the six month period. Consumer discretionary stocks also led the market weakness as this cyclical sector was affected by rising consumer prices. Utilities and energy were the only sectors to generate positive returns: investors were attracted by the defensive attributes of utilities, in view of fears that the weakening economic outlook could lead to a recession; and the energy sector was boosted by surging oil and gas prices, particularly after the outbreak of war in Eastern Europe.

Inflation continued to rise in the UK over the period, with annual consumer price inflation ("CPI") climbing steadily to hit a 40-year high of 9.4% in June 2022, from 5.5% in January 2022. The Bank of England reacted to rising inflation with five consecutive interest-rate rises, with the Base Rate reaching 1.25% in June 2022.

We expected the UK consumer to see disposable income squeezed; however, that squeeze has tightened even more with the rise in the energy cap in April 2022, food prices now rising by some 7-8% year-on-year and petrol/diesel approaching 200p per litre and with tax rises and the tax take at the highest level since the 1950's. It appears that consumers are continuing to spend their pandemic 'enforced savings' and consumer credit is growing again. Looking forward, the energy cap is likely to rise considerably if the Russia/Ukraine conflict continues to constrain gas supplies to Europe. Markets also remain concerned over a wage-price spiral.

One thing that the market weakness has helped to drive is continued buoyant Mergers and Acquisitions ("M&A"), with UK companies looking even cheaper to overseas buyers. However, there is uncertainty over new policies now that the new Prime Minister has taken office.

Performance

The period was a challenging one for performance for the Company with our style being out of favour in the market as "top down" global macro factors have taken the lead over "bottom up" stock picking. Smaller companies markets have been difficult, seeing dramatic falls during 2022 in contrast with the last half of 2021, which was a strong period for the Company, with quality growth names proving resilient to the stop/start nature of the pandemic recovery. However, there has been a strong value tilt to the market since the turn of the year, with investors favouring cheaper, value companies. Profit taking has occurred extensively in our typical quality growth businesses despite their earnings resilience and continuing growth.

Telecom Plus, the UK's only fully integrated multiservice provider to households has been the top contributor to performance over the period, as its business model and offering is ideally placed against the current market backdrop. Trading under the brand name 'Utility Warehouse' the business derives significant operating efficiencies by spreading a single set of overheads across multiple revenue streams they receive from their customers. Telecom Plus provides savings (c. £300 pa) for multi-service customers, which is significant given the scale of the increase in the cost of living. Furthermore, the energy supply market has recently gone through fundamental change, with half of the suppliers ceasing to trade last year, giving market share gain opportunities.

Investment Manager's Review
Continued

We are increasingly confident that the marketplace for energy supply has permanently changed and that the Telecom Plus model is well positioned for the new market conditions. The business has seen a significant improvement in new customer growth as the energy and cost of living crisis has unfolded, supported by a more engaged salesforce post-pandemic, driving upgrades to earnings.

Assura owns primary healthcare properties in the UK, comprising local GP surgeries and larger primary care centres. Assura has been a positive contributor driven by the defensive nature of the business, namely their assets, lease structures, balance sheet strength and demographic trends during a period of heightened uncertainty for wider equity markets. As an owner of primary healthcare facilities across the UK, Assura benefits from long-dated leases (twelve year average) of which 82% are underpinned by the NHS. A significant proportion of the NHS estate and primary healthcare facilities across the UK are deemed unfit for purpose; and, as a developer, Assura remains well placed to develop, finance and operate new, modern, energy efficient (often net zero) buildings at a time when the government's focus is on both the resilience of the healthcare system (and its cost) in the wake of the pandemic. Primary healthcare, where the cost of patient treatment is significantly lower than other settings, remains well placed to benefit from any investment. Lease structures also lend themselves to resilience in periods of heightened inflation. One third of income across the portfolio benefits from fixed, retail prices index ("RPI"), CPI or other uplifts, while two-thirds is subject to open market review. Open market reviews are assessed versus a building replacement cost index, with significant construction cost inflation rental growth only now beginning to accelerate from a low base, adding to the attraction of the income (c.4% dividend yield). Assura was assigned an A- (stable outlook) rating from Fitch in the period (January 2022) highlighting its resilience, despite market uncertainty.

Chesnara outperformed its peers and the broader market in the first half of the year, following an increase in the pace of bolt-on acquisitions (two deals closed in the first half and another was announced in July 2022). Importantly, it has funded this out of cash resources and £200m sub debt issue in January 2022, which has effectively 'pre-funded' future M&A. This inorganic expansion has built book value through purchase at a discount to book values, and improved visibility on cash coverage for the dividend, which has grown at a steady 3% pace since the company listed in 2004. This track record is unmatched among UK insurers. The 8% yield has been a big part of the total return relative to the market.

Retailers **Seraphine** and **Halfords** detracted from performance in the period. The retail sector has had a torrid start to the year on fears of a consumer collapse and there have been downgrades across the sector. Consequently, share prices have fallen in the face of macro concerns and rising costs.

Halfords' full year results, were better than expected as the business has executed against its strategy to become an increasingly services led multi-channel specialist. In the outlook statement, however, they flagged that the backdrop had deteriorated rapidly in the first six months of 2022, primarily due to the pressure from rampant cost inflation. While the business is leaning into favourable secular trends and has strategic and operational initiatives, they flagged headwinds from foreign exchange, discretionary squeeze and fuel prices, all of which lead to downgrades to earnings.

Seraphine, the online maternity wear retailer suffered a profit warning due to supply-chain pressure and poor financial management in of duties in other territories. We significantly reduced exposure to the name given its poor matrix score, ongoing supply-chain and inflationary challenges and weakening consumer backdrop.

Asset manager **Liontrust** saw downgrades to earnings as the Assets under Management (AuM) outturn was lower, reflecting its exposures to UK Retail and equities and also its growth style. This, together with small net outflows resulted in a reduction to analysts' earnings estimates. The de-rating of the shares has been severe and we expect upside once markets stabilise and flows recover. It is also supported by the well underpinned 8% dividend yield.

Portfolio Activity

Since the end of 2021, we have added a new position in Pets at Home, the largest specialist pet care retailer in the UK, operating two main divisions; retail, which sells pet products including food and accessories, and vet practices. The company scores well on our matrix, demonstrating the operational and earnings momentum in the business which is allowing it to take more market share in a growing market. We are also seeing a transformation of the vet business with growth and significant margin expansion potential ahead. The shares have an attractive free cashflow yield of 5.5% giving a well-funded 3% dividend yield. The balance sheet is net cash, providing optionality for M&A. More detail on this company is provided in the case study on page 16.

We added a new position in the high matrix scoring and high yielding developer, **Watkin Jones**. We had two very strong meetings with the management team and believe that prospects for the business are excellent. End market demand for high quality student accommodation, built-to-rent and affordable housing are supportive and are likely to remain so. Moreover, the company's expanded pipeline has scope to grow further, improving visibility and de-risking future delivery. Their value add is in site selection, design, and construction, and because they are paid on a percentage of completion basis, the return on capital is very high. The risk is the cyclicality of the business model, which is mitigated by consistently having a net cash balance sheet, together with typically only commencing construction when the company has agreed a contract with an institution who will own it.

A new position was added in defence company, **Chemring**. Over a short time, we have watched the management team realign the portfolio and transition to a higher quality business. Strong progress has been made, evidenced by solid earnings growth, cash conversion of EBITDA >100% in each of the last three financial years, and improved safety metrics. Visibility has improved, underpinned by a strong order book and sole source positions on key growth programmes. Such improvements in the business have been evidenced by the delivery of consistent upgrades to earnings. Russia's invasion of Ukraine has seen a sea change in opinion towards defence spending in the West, and it has also seen a reset in terms of how the sector is viewed from an Environmental, Social and Governance ("ESG") perspective. While there remains much uncertainty as to the speed at which defence spend materialises into orders for the sector, we appear to be entering a multi-year period of elevated defence and security spending and Chemring's refocused portfolio is well aligned to areas of growing spend. In addition to end market strength we see multiple stock specific drivers particularly around 'Roke' a high margin division with expertise around Artificial Intelligence, Machine Learning and Cyber and Data Networks. Chemring's significantly improved balance sheet also provides optionality for M&A alongside returns to shareholders. Chemring has a high matrix score and the shares yield c.2.2%.

More recently, we added a new position in North Sea based exploration and gas production company **Serica Energy ("Serica")**. Five years of underinvestment in the North Sea had already led to acute gas shortages even before Russia's invasion of Ukraine. The invasion of Ukraine is expected to be prolonged and lead to a long term embargo on Russian gas across Europe. The consensus on twelve month earnings expectations for the Exploration & Production sector as a whole is strong, which is reflective of forecasts for tight oil and gas markets that are set to extend through the second half of the year, into 2023. We favour Serica against this backdrop as the credential of the business fits our Quality Growth and Momentum process. The management team have a good track record of execution, the balance sheet is net cash and at the recent AGM, management reiterated production guidance and increased the capital return through an additional interim dividend on top of the existing final dividend. This raised the total annual dividend to 15p per share and dividend yield to c5%. The shape and impact of the windfall profits tax on the business is certain, and ESG credentials are strong, reflected in the company's MSCI A rating.

We sold our position in **Moneysupermarket**. A series of concerns ranging from management change to regulation to volatile end markets has led to a gradually declining earnings momentum. The business has had to deal with supply shocks in all of its key segments. While the money and travel segments are seeing recovery post pandemic, trading in the home services division remains difficult due to the ongoing energy crisis, and a regulatory review clouds the insurance market outlook. Whilst the forecast free cash flow should be sufficient to support the dividend, the poor matrix score, together with concerns over the future trajectory of the competitive landscape lead us to exit the position.

We exited our position in language translation company, **RWS**, following a strategic review that pointed to slower growth for the business, and near term margin pressure. We also exited our position in **Clipper Logistics** following the bid from US listed GXO.

Investment Manager's Review

Continued

The June 2022 update from retailer **ProCook** revealed that, while they are gaining market share, the kitchenware sector has struggled in recent months due to weaker footfall and conversion. The business has good long term growth prospects; however, the challenges around earnings progression meant that we took the decision to exit the position.

We reduced the portfolio's overall exposure to the retail sector during the period under review. Consumers are facing an erosion of spending power, meaning that retailers' margins will carry some of the pain. Consumers seem well disposed to enjoy the summer; however, autumn is when we expect them to feel the impact of weaker spending power, which will really impact retail volumes. While the retail companies in the Company's portfolio are structural growth stocks, offering market share gains, attractive return on capital employed excellent cash conversion, lower operational gearing/lower downgrade risk and compelling long term growth prospects, we consider it prudent to reduce expose to the sector in this environment.

Fixed income

As with other financial markets corporate bonds suffered a very difficult first six months of the year. Inflation continued to rise and policymakers moved to a more hawkish stance in many jurisdictions. This has caused yields to rise on expectations of higher rates and credit spreads to widen as economic slowdown has been priced-in. Although it is fair to assume that inflation expectations will fall from here, the impact of higher rates, combined with the challenges being faced by consumers as well as corporates from higher prices will be negative on economic activity. A soft landing has been priced-in to corporate bond markets and spreads offer some good value over the medium term despite some downside risk.

Holdings in the Company are investment grade rated and credit quality in this market remains strong. Corporates in all sectors have displayed prudence in the aftermath of the pandemic and leverage remains relatively low on an historic basis. The Corporate Bond All Maturities Index was down over 14% over the period, with the back up in government yields being the main driver. The bonds issued by Barclays, HSBC and NatWest in the financial sector all fell in value as the banking sector was one of the sterling market's underperformers. Shorter dated issues in the Company were the best performers with Heathrow 5.225% 2023 down only 0.43%, while the longest maturity, issued by NatWest, was down slightly more than 11%. Following the end of the period a recovery in spreads has been noted and the Company's holdings have delivered some positive returns.

ESG

Without impacting the long term stability and strength of our matrix-driven QGM investment process we have built comprehensive ESG more formally into our thinking in recent years. Through the "quality" aspects of our process, we have subliminally been doing this for many years. ESG is embedded in all our research and investment decisions. abrdn has a well-resourced ESG investment team, with whom we work closely. We also have a dedicated smaller companies on desk ESG analyst, Tzoulianna Leventi. When analysing the ESG credentials of businesses, we are looking for both risks and opportunities. As a long term shareholder, many companies are keen to engage with us, and we can use our in-house ESG expertise to provide guidance. The large AUM we manage in UK smaller companies delivers excellent engagement opportunities with management teams, and the ability to help those companies to improve both their ESG qualities but also how they demonstrate those to the market. Where we can help a company to improve their ESG credentials, this is beneficial as it may lead to a higher stock rating, and can also reduce the risk of holding that investment.

Outlook

It is disappointing that our investment process has not provided the resilience in this bear market that it provided in previous tougher economic environments. The markets focus over the first six months of the year has been very much top-down and macro-driven. The market started the year with optimism about the recovery from the pandemic, where value and recovery stocks were in favour. With the emergence of persistent inflation, constrained supply chains, and the conflict in Ukraine, markets have sold off hitting growth stocks aggressively which has driven the underperformance of our investment process. At the time of writing, the market is still macro and geopolitical driven and the sell-off continues. Market recoveries tend to come at the 'point of maximum pain' and economic data suggests that we are not there yet.

As we tip towards recession we believe quality will be more of a driver of markets as investors seek resilience. In which case, on a relative basis, our quality focus should become increasingly attractive to the market. In this environment where growth becomes scarcer, companies still achieving earnings growth tend to become more valuable. Our ability to identify companies which can deliver sustained earnings growth should be rewarded. In the Global Financial Crisis, the market cared about quality and earnings; it did not care about value as seen through the underperformance of perceived cheap stocks.

We are seeing a period of increasing earnings downgrades across the market and, with that, comes the importance of stock selection and an active approach. Resilience of earnings is also linked to dividends, so is a particular focus for this Company.

Small and mid-cap markets are inherently higher risk than large cap and, in this market sell-off, we've seen them, as we have many times in history, sell-off more aggressively. This has been exacerbated by the dominance of sectors such as resources and banks in the FTSE 100, holding up the large cap returns well relative to mid-caps and other geographies. We believe small and mid-caps will once again have their time, and tend to lead in a market recovery. Timing can be challenging, especially in markets with such volatility as these, so we encourage investors to take a long term view with a strategic allocation to the asset class.

Abby Glennie & Amanda Yeaman
Aberdeen Asset Managers Limited
12 September 2022

Ten Largest Investments

As at 30 June 2022

Telecom Plus

Reseller of telecom and utilities service, under the Utility Warehouse brand.

Morgan Sindall

UK leading business in construction and regeneration work.

Safestore

Safestore is the UK's largest and Europe's second largest provider of self-storage.

Softcat

Value added technology reseller in UK.

Sirius Real Estate

Leading owner and operator of business parks, offices and industrial complexes in Germany.

Alpha Financial Markets Consulting

Leading global consulting company to assist asset management, wealth management and insurance industries.

Tatton Asset Management

UK discretionary fund manager providing services to UK's financial advisers enabling them to provide a better service to their clients.

discoverIE Group

International group of businesses that designs, manufactures and supplies highly differentiated components for electronic applications.

Robert Walters

Specialist professional recruiter.

Games Workshop

Global retailer of hobbyist products, selling through own retail stores, online, and through trade partners. Owner of the IP of Warhammer.

Portfolio – Equities

At 30 June 2022

Company	Sector Classification	Valuation 2022 £'000	Total portfolio %
Telecom Plus	Telecommunications Service Providers	4,129	5.8
Morgan Sindall	Construction & Materials	2,647	3.8
Safestore	Real Estate Investment Trusts	2,440	3.5
Softcat	Software & Computer Services	2,200	3.1
Sirius Real Estate	Real Estate Investment & Services	2,098	3.1
Alpha Financial Markets Consulting	Industrial Support Services	2,018	2.9
Tatton Asset Management	Investment Banking & Brokerage Services	1,995	2.8
DiscoverIE Group	Technology Hardware & Equipment	1,936	2.7
Robert Walters	Industrial Support Services	1,930	2.7
Games Workshop	Leisure Goods	1,928	2.7
Ten largest investments		**23,321**	**33.1**
Assura	Real Estate Investment Trusts	1,923	2.7
Somero Enterprises	Industrial Engineering	1,861	2.6
Bytes Technology	Software & Computer Services	1,849	2.6
Hilton Food Group	Food Producers	1,819	2.6
Hollywood Bowl	Travel & Leisure	1,798	2.5
Chesnara	Life Insurance	1,653	2.3
Intermediate Capital Group	Investment Banking & Brokerage Services	1,637	2.3
Mortgage Advice Bureau	Finance and Credit Services	1,594	2.3
Kesko[A]	Personal Care, Drug & Grocery Stores	1,586	2.3
Forterra	Construction & Materials	1,459	2.1
Twenty largest investments		**40,500**	**57.4**
Midwich	Industrial Support Services	1,451	2.1
AJ Bell	Investment Banking & Brokerage Services	1,426	2.0
Dunelm	Retailers	1,420	2.0
FDM	Industrial Support Services	1,363	1.9
Greggs	Personal Care, Drug & Grocery Stores	1,322	1.9
Close Brothers	Banks	1,311	1.9
Chemring Group	Aerospace & Defence	1,273	1.8
Rathbone Brothers	Investment Banking & Brokerage Services	1,179	1.7
Liontrust Asset Management	Investment Banking & Brokerage Services	1,172	1.7
Victrex	Chemicals	1,168	1.6
Thirty largest investments		**53,585**	**76.0**

Portfolio – Equities

Continued

At 30 June 2022

Company	Sector Classification	Valuation 2022 £'000	Total portfolio %
Pets at Home Group	Retailers	1,152	1.6
Strix Group	Electronic & Electrical Equipment	1,111	1.6
Unite Group	Real Estate Investment Trusts	1,054	1.5
Halfords	Retailers	1,049	1.5
Marshalls	Construction & Materials	1,043	1.5
XP Power	Electronic & Electrical Equipment	1,027	1.5
Polar Capital Holdings	Investment Banking & Brokerage Services	1,010	1.4
MJ Gleeson	Household Goods & Home Construction	938	1.3
Synthomer	Chemicals	925	1.3
Gateley Holdings	Industrial Support Services	922	1.3
Forty largest investments		**63,816**	**90.5**
Severfield	Construction & Materials	918	1.3
Impax Asset Management	Investment Banking & Brokerage Services	786	1.1
Watkin Jones	Household Goods & Home Construction	783	1.1
Serica Energy	Oil, Gas & Coal	682	1.0
CMC Markets	Investment Banking & Brokerage Services	666	0.9
Hill & Smith Holdings	Industrial Metals & Mining	656	0.9
Seraphine	Personal Goods	56	0.1
Total Equity Investments		**68,363**	**96.9**

[A] All investments are listed on the London Stock Exchange (sterling based), except where marked, which is listed on an overseas exchange (sterling based).

Portfolio – Other Investments

At 30 June 2022

Company	Valuation 2022 £'000	Total portfolio %
Corporate Bonds[A]		
NGG Finance 5.625%	377	0.5
Barclays Bank 9% Perp	335	0.5
HSBC Holdings 6.5%	313	0.5
Heathrow Funding 5.225%	303	0.4
Northumbrian Water 1.625%	280	0.4
Anglian Water Service Finance 4.5%	209	0.3
Informa 3.125%	192	0.3
NatWest Group 2.105%	172	0.2
Total Corporate Bonds	**2,181**	**3.1**
Total Investments	**70,544**	**100.0**

[A] All investments are listed on the London Stock Exchange (Sterling based).

Distribution of Assets and Liabilities

As at 30 June 2022

	Valuation at 31 December 2021		Movement during the period			Valuation at 30 June 2022	
	£'000	%	Purchases £'000	Sales £'000	(Losses)/ gains £'000	£'000	%
Listed investments							
Equity investments	100,566	102.8	8,320	(10,502)	(30,022)	**68,363**	**101.8**
Corporate bonds	1,617	1.7	1,009	(300)	(145)	**2,181**	**3.3**
	102,183	104.5	9,329	(10,802)	(30,167)	**70,544**	**105.1**
Current assets	2,968	3.0				**4,392**	**6.5**
Other current liabilities	(316)	(0.3)				**(791)**	**(1.2)**
Loans	(6,995)	(7.2)				**(6,997)**	**(10.4)**
Net assets	97,840	100.0				**67,148**	**100.0**
Net asset value per Ordinary share	442.52p					**306.10p**	

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Pets at Home Group

Pets at Home is the largest specialist pet care retailer in the UK. It operates two main divisions: retail, selling pet products including food and accessories; and The Vet group, operating under a unique joint venture model. The business has an excellent track record of growth, scaling the business since listing out of Private Equity ownership in 2014 to deliver a seven year revenue compound annual growth rate ("CAGR") of 8% and earnings CAGR of 7% over the period. More recently the pet care market has structurally increased thanks to the growing pet population and the increase in spend per pet. Despite this rapid progress, the Manager still views the business as being in the early stages of capitalising on this structural and sustaining trend to become the most comprehensive provider in the UK pet space. Thanks to its services (vets and grooming), non-food and private label nutrition business, Pets at Home has the highest profitability in its peer group of domestic and international players.

Pets at Home was clearly a 'pandemic winner' and is one of the few retailers continuing to outperform post-pandemic. The industry market leader with a multi-channel presence is supported by a structural increase in the pet population as well as spending patterns of Millennials and Generation Z. With extra investment in data analytics and subscription revenues, the business is well positioned to leverage this growth which should continue in the medium to long-term.

The company has had a series of upgrades to guidance over the recent past, demonstrating the momentum in the business and it is generating a number of its own tailwinds, allowing it to take share of profits within an enlarged market. The company is also undergoing a transformation of the vet business, with growth and significant margin expansion potential ahead, and there is upside from subscription revenues, which is small but increasing. Management guide that the subscription business will be significantly larger in size over the medium-term which will drive customer retention and increase revenue visibility. With eight years of customer data and investment in their in-house technology 'Polestar' the Manager expects the company to capitalise on the subscription trend.

The Manager acknowledges the challenging environment for consumer-facing businesses; however, the pet care market has historically been resilient. Pets at Home is well positioned to mitigate cost inflation and pass it on strategically on less purchased lines so as not to impact customer demand in the short-term. Premiumisation will also help offset some volume decline. Management are committed to matching prices with competitors within a 5% limit, leveraging its warehouse and stores with a cost efficient next day delivery. Pets at Home has a House ESG Q Score 2, putting it in the 'leader category', and it has a AA MSCI rating.

The shares have an attractive free cashflow yield of 5.5%, giving a well-funded 3% dividend yield. The balance sheet is net cash, providing optionality for M&A activity.

Mortgage Advice Bureau

Mortgage Advice Bureau ("MAB") seeks to connect mortgage seekers with one of over 1,800 mortgage advisers in the UK, delivering expert advice on mortgages, protection and insurance products.

The company's ongoing investment in technology underpins its business model and growth strategy. The 'MIDAS Pro' platform is an integrated software system encompassing a full-suite management information tool for advisers e.g. point of sale, compliance, record keeping and adviser commission calculation and payment. This holistic offering grants advisers the access systems and services needed to compete. They also allow for greater focus on revenue generation, which we believe are key factors in attracting advisers onto the platform. This access to strong technology and services helps ensures that advisers are keen to join the MAB family.

As a platform business, the scope for high and sustainable operating margins is present and the scalability of the business model allows management to push further operating leverage, as the platform looks to support larger volumes of mortgage applications. Given its capital light nature, cash conversion remains high, facilitating a payout ratio of c.75% of adjusted earnings, hence the stock remains attractive to both income orientated and growth investors.

MAB is a founder-run business and the CEO/founder has a large equity stake, aligning his interests with those of shareholders. Since listing in late 2014, the company has proven its relevance in the market, has continued to gain market share, and importantly has executed solidly in its growth pathway despite volatility in the housing market. MAB now has a 6.3% share of new mortgage lending. Being listed has aided its brand reputation, and also the ability to do bolt-on acquisitions through earnings accretive deals. The company has continued to build out a national lead generation spread, complimentary to their regional focus. The acquisition of Fluent Money earlier this year further expands MAB's reach into consumer websites and price comparison.

From an ESG standpoint, Mortgage Advice Bureau is setting out to become a leader in its field. Recently the business organised a Green mortgage conference, where the audience comprised a wide range of lenders, intermediaries and investors to discuss the challenges the mortgage sector faces against the backdrop of the 'green agenda' as the UK government strives towards its 2050 net-zero target. As it stands rules are already in place for banks to target having an average energy performance certificate ("EPC") grade across their mortgage portfolios of 'C' or better and for landlords to provide rental accommodation with the same 'C' grade requirement or better.

Mortgage Advice Bureau is of the view that mortgage brokers can play a significant role in encouraging the implementation of these ESG targets in advising mortgage borrowers on products that either reward borrowers with more energy efficient homes through lower mortgage rates or provide financial incentives for borrowers to make improvements to their properties, to improve their EPC grade.

The difference between mortgage rates for properties with 'C' grade or better is currently very small relative to properties with less than a 'C' grade, so lacks any effective incentivisation. Other areas for action management highlighted include promoting awareness of the issue with both borrowers and lenders, improving the availability of green mortgage products, refining EPC target setting, and to bring other stakeholders into the debate.

Whilst the current outlook for the UK economy and housing market remain decidedly unclear due to rising borrowing costs, Mortgage Advice Bureau continues to execute on its well-defined growth strategy, thereby future-proofing and solidifying the investment case.

Condensed Statement of Comprehensive Income

		Six months ended 30 June 2022 (unaudited)			Six months ended 30 June 2021 (unaudited)			Year ended 31 December 2021 (audited)		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value		**–**	**(30,167)**	**(30,167)**	–	14,682	14,682	–	21,035	21,035
Income										
Dividend income	2	**1,656**	**–**	**1,656**	1,202	–	1,202	2,741	–	2,741
Interest income from investments	2	**46**	**–**	**46**	43	–	43	80	–	80
Other income	2	**9**	**–**	**9**	–	–	–	1	–	1
		1,711	**(30,167)**	**(28,456)**	1,245	14,682	15,927	2,822	21,035	23,857
Expenses										
Investment management fee		**(88)**	**(205)**	**(293)**	(95)	(221)	(316)	(203)	(472)	(675)
Other administrative expenses		**(226)**	**–**	**(226)**	(194)	–	(194)	(394)	–	(394)
Finance costs		**(33)**	**(77)**	**(110)**	(26)	(62)	(88)	(56)	(130)	(186)
Profit/(loss) before tax		**1,364**	**(30,449)**	**(29,085)**	930	14,399	15,329	2,169	20,433	22,602
Taxation	3	**(15)**	**–**	**(15)**	(14)	–	(14)	(26)	–	(26)
Profit/(loss) attributable to equity holders		**1,349**	**(30,449)**	**(29,100)**	916	14,399	15,315	2,143	20,433	22,576
Return per Ordinary share (pence)	5	**6.10**	**(137.72)**	**(131.62)**	4.14	65.13	69.27	9.69	92.42	102.11

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 (AIC). 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 period, and therefore the "Profit/(loss) attributable to equity holders" is also the "Total comprehensive income attributable to equity holders" as defined in IAS 1 (revised).

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

Condensed Balance Sheet

	Notes	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Non-current assets				
Equities		**68,363**	91,951	100,566
Corporate Bonds		**2,181**	1,667	1,617
Securities at fair value		**70,544**	93,618	102,183
Current assets				
Cash and cash equivalents		**3,741**	5,414	2,592
Other receivables		**651**	393	376
		4,392	5,807	2,968
Current liabilities				
Bank loan		**(6,997)**	(2,000)	(2,000)
Trade and other payables		**(260)**	(904)	(316)
		(7,257)	(2,904)	(2,316)
Net current (liabilities)/assets		**(2,865)**	2,903	652
Total assets less current liabilities		**67,679**	96,521	102,835
Non-current liabilities				
Bank loan		**–**	(4,993)	(4,995)
Net assets		**67,679**	91,528	97,840
Share capital and reserves				
Called-up share capital		**11,055**	11,055	11,055
Share premium account		**11,892**	11,892	11,892
Capital redemption reserve		**2,032**	2,032	2,032
Capital reserve		**39,212**	63,627	69,661
Revenue reserve		**3,488**	2,922	3,200
Shareholders' funds		**67,679**	91,528	97,840
Net asset value per Ordinary share (pence)	6	**306.10**	413.97	442.52

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

Condensed Statement of Changes in Equity

Six months ended 30 June 2022 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2021	**11,055**	**11,892**	**2,032**	**69,661**	**3,200**	**97,840**
(Loss)/profit for the period	**–**	**–**	**–**	**(30,449)**	**1,349**	**(29,100)**
Dividends paid in the period	**–**	**–**	**–**	**–**	**(1,061)**	**(1,061)**
As at 30 June 2022	**11,055**	**11,892**	**2,032**	**39,212**	**3,488**	**67,679**

Six months ended 30 June 2021 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2020	11,055	11,892	2,032	49,228	2,937	77,144
Profit for the period	–	–	–	14,399	916	15,315
Dividends paid in the period	–	–	–	–	(931)	(931)
As at 30 June 2021	11,055	11,892	2,032	63,627	2,922	91,528

Year ended 31 December 2021 (audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2020	11,055	11,892	2,032	49,228	2,937	77,144
Profit for the year	–	–	–	20,433	2,143	22,576
Dividends paid in the year	–	–	–	–	(1,880)	(1,880)
As at 31 December 2021	11,055	11,892	2,032	69,661	3,200	97,840

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

Condensed Statement of Cash Flows

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Cash flows from operating activities			
Dividend income received	**1,369**	1,183	2,699
Interest income received	**57**	–	98
Other income received	**6**	–	1
Investment management fee paid	**(322)**	(297)	(650)
Other cash expenses	**(252)**	(233)	(379)
Cash generated from operations	**858**	653	1,769
Interest paid	**(122)**	(88)	(166)
Overseas taxation suffered	**(9)**	(25)	(38)
Net cash inflows from operating activities	**727**	540	1,565
Cash flows from investing activities			
Purchases of investments	**(9,319)**	(6,493)	(20,109)
Sales of investments	**10,802**	10,683	21,401
Net cash inflows from investing activities	**1,483**	4,190	1,292
Cash flows from financing activities			
Equity dividends paid	**(1,061)**	(931)	(1,880)
Net cash outflows from financing activities	**(1,061)**	(931)	(1,880)
Net increase in cash and cash equivalents	**1,149**	3,799	977
Analysis of changes in cash and cash equivalents during the period			
Opening balance	**2,592**	1,615	1,615
Increase in cash and cash equivalents as above	**1,149**	3,799	977
Cash and cash equivalents at the end of the period	**3,741**	5,414	2,592

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

Notes to the Financial Statements

For the year ended 30 June 2022

1. Accounting policies

Basis of preparation. The condensed financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 34 – 'Interim Financial Reporting', as adopted by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB. They have been prepared using the same accounting policies applied for the year ended 31 December 2021 financial statements, which received an unqualified audit report.

The financial statements have been prepared on a going concern basis. In accordance with the Financial Reporting Council's guidance on 'Going Concern and Liquidity Risk' the Directors have undertaken a review of the Company's assets which principally consist of equity shares in companies listed on the London Stock Exchange.

2. Income

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Income from investments			
Dividend income from UK equity securities	**1,269**	873	2,136
Dividend income from overseas equity securities	**260**	196	403
Property income distribution	**127**	133	202
	1,656	1,202	2,741
Interest income from investments	**46**	43	80
	1,702	1,245	2,821
Other income			
Bank interest	**1**	–	1
Interest from AAA-rated money market funds	**8**	–	–
	9	–	1
Total revenue income	**1,711**	1,245	2,822

3. Taxation

The tax expense reflected in the Condensed Statement of Comprehensive Income represents irrecoverable withholding tax suffered on overseas dividend income.

4. Dividends

The following table shows the revenue for each period less the dividends declared in respect of the financial period to which they relate.

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Profit attributable	**1,349**	916	2,143
Dividends declared	**(1,061)[A]**	(951)[B]	(1,956)[C]
	288	(35)	187

[A] Dividends declared relate to the first two interim dividends (both 2.40p each) declared in respect of the financial year 2022.
[B] Dividends declared relate to the first two interim dividends (both 2.15p each) declared in respect of the financial year 2021.
[C] Dividends declared relate to the three interim dividends (2.15p each) and final interim dividend (2.40p) declared in respect of the financial year 2021 totalling 8.85p.

5. Return per Ordinary share

	Six months ended 30 June 2022 p	Six months ended 30 June 2021 p	Year ended 31 December 2021 p
Revenue return	**6.10**	4.14	9.69
Capital return	**(137.72)**	65.13	92.42
Net return	**(131.62)**	69.27	102.11

The returns per Ordinary share are based on the following figures:

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Revenue return	**1,349**	916	2,143
Capital return	**(30,449)**	14,399	20,433
Net return	**(29,100)**	15,315	22,576
Weighted average number of Ordinary shares in issue	**22,109,765**	22,109,765	22,109,765

Notes to the Financial Statements

Continued

6. Net asset value per Ordinary share

The net asset value per Ordinary share and the net assets attributable to Ordinary shareholders at the period end calculated in accordance with the Articles of Association were as follows:

	As at 30 June 2022 (unaudited)	As at 30 June 2021 (unaudited)	As at 31 December 2021 (audited)
Attributable net assets (£'000)	**67,679**	91,528	97,840
Number of Ordinary shares in issue	**22,109,765**	22,109,765	22,109,765
Net asset value per Ordinary share (p)	**306.10**	413.97	442.52

7. Transaction costs

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

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Purchases	**32**	30	76
Sales	**9**	8	16
	41	38	92

8. Analysis of changes in financing liabilities during the period

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

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Opening balance	**6,995**	6,991	6,991
Amortisation of arrangement costs	**2**	2	4
Closing balance	**6,997**	6,993	6,995

9. 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 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 (i.e. as prices) or indirectly (i.e. 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 measured at fair value in the Condensed Balance Sheet are grouped into the fair value hierarchy as follows:

At 30 June 2022 (unaudited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	**68,363**	**–**	**–**	**68,363**
Quoted bonds	b)	**–**	**2,181**	**–**	**2,181**
		68,363	**2,181**	**–**	**70,544**

At 30 June 2021 (unaudited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	91,951	–	–	91,951
Quoted bonds	b)	–	1,667	–	1,667
		91,951	1,667	–	93,618

At 31 December 2021 (audited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	100,566	–	–	100,566
Quoted bonds	b)	–	1,617	–	1,617
		100,566	1,617	–	102,183

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

b) Quoted bonds. The fair value of the Company's investments in quoted bonds 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.

Notes to the Financial Statements

Continued

There have been no transfers of assets between levels of the fair value hierarchy during any of the periods covered in this Report.

10. Related party transactions

There were no related party transactions during the period.

11. Transactions with the Manager

The Company has agreements with abrdn Fund Managers Limited ("aFML" or "the Manager") for the provision of investment management, secretarial, accounting and administration and promotional activities.

The management fee is calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. During the period £293,000 (30 June 2021 – £316,000; 31 December 2021 – £675,000) of investment management fees were payable to the Manager, with a balance of £89,000 (30 June 2021 – £113,000; 31 December 2021 – £119,000) being payable to aFML at the period end. During the period and at the period end, the Company held £3,498,000 (30 June 2021 – £5,105,000; 31 December 2021 – £2,406,000) in Aberdeen Standard Liquidity Fund (Lux) – Sterling Fund which is managed and administered by Aberdeen Standard Investments Luxembourg S.A. The Company pays a management fee on the value of these holdings but no fee is chargeable at the underlying fund level. The management fee is chargeable 30% to revenue and 70% to capital.

During the period expenses of £28,000 (30 June 2021 – £22,000; 31 December 2021 – £49,000) were payable to the Manager in connection with the promotion of the Company. The balance outstanding at the period end was £14,000 (30 June 2021 – £22,000; 31 December 2021 – £37,000).

12. Segmental information

The Company is engaged in a single segment of business, which is to invest in equity securities and debt instruments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based on the Company as one segment.

13. Publication of non-statutory accounts

The financial information contained in this Half Yearly Financial Report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the six months ended 30 June 2022 and 30 June 2021 has not been audited.

The information for the year ended 31 December 2021 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006.

14. This Half Yearly Financial Report was approved by the Board on 12 September 2022.

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.

Discount to Net Asset Value per Ordinary share

The amount by which the market price per Ordinary share is lower than the net asset value per Ordinary share, expressed as a percentage of the net asset value per Ordinary share.

		30 June 2022	31 December 2021
NAV per Ordinary share (p)	a	**306.10**	442.52
Share price (p)	b	**258.00**	375.00
Discount	(b-a)/a	**15.7%**	15.3%

Net gearing

Net gearing measures total borrowings less cash and cash equivalents divided by shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due to and from brokers at the period end as well as cash.

		30 June 2022	31 December 2021
Borrowings (£'000)	a	**6,997**	6,995
Cash (£'000)	b	**243**	186
Investments in AAA-rated money market funds	c	**3,498**	2,406
Amounts due to brokers (£'000)	d	**15**	5
Amounts due from brokers (£'000)	e	**–**	–
Shareholders' funds (£'000)	f	**67,679**	97,840
Net gearing	(a-b-c+d-e)/f	**4.8%**	4.5%

Alternative Performance Measures

Continued

Ongoing charges

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 published daily net asset values with debt at fair value throughout the year. The ratio for 30 June 2022 is based on forecast ongoing charges for the year ending 31 December 2022.

	30 June 2022	31 December 2021
Investment management fees (£'000)	**546**	675
Administrative expenses (£'000)	**409**	393
Less: non-recurring charges[A] (£'000)	**(30)**	(25)
Ongoing charges (£'000)	**925**	1,043
Average net assets (£'000)	**73,080**	89,659
Ongoing charges ratio (excluding look-through costs)	**1.27%**	1.16%
Look-through costs[B]	**0.04%**	0.04%
Ongoing charges ratio (including look-through costs)	**1.31%**	1.20%

[A] Professional services comprising new director recruitment costs and legal fees considered unlikely to recur.
[B] Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

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

Total return

NAV and share price total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. Share price and NAV total returns are monitored against open-ended and closed-ended competitors, and the benchmark, respectively.

Six months ended 30 June 2022		NAV	Share Price
Opening at 1 January 2022	a	**442.5p**	**375.0p**
Closing at 30 June 2022[A]	b	**303.7p**	**258.0p**
Price movements	c=(b/a)-1	**-31.4%**	**-31.2%**
Dividend reinvestment[B]	d	**1.4%**	**1.6%**
Total return	c+d	**-30.0%**	**-29.6%**

Year ended 31 December 2021		NAV	Share Price
Opening at 1 January 2021	a	348.9p	313.0p
Closing at 31 December 2021	b	442.5p	375.0p
Price movements	c=(b/a)-1	26.8%	19.8%
Dividend reinvestment[B]	d	3.6%	3.1%
Total return	c+d	+30.4%	+22.9%

[A] Closing NAV reflects the value per the Condensed Balance Sheet on page 19 of 306.1p less the value of the second interim dividend for the year of 2.4p.
[B] NAV total return involves investing the dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return involves reinvesting the dividend in the share price of the Company on the date on which that dividend goes ex-dividend.

Investor Information

How to Invest

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

abrdn Investment Trust Share Plan

abrdn operates an Investment Trust 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%) on entry. 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 abrdn in writing at any time.

abrdn Investment Trust ISA

abrdn operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the tax year 2022/23.

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. 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 ISA prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the ISA, from the sale of investments held in the ISA. Under current legislation, investments in ISAs can grow free of capital gains tax and personal income tax.

ISA Transfer

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

abrdn Investment Plan for Children

abrdn operates 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 (subject to the eligibility criteria as stated within the terms and conditions), including parents, grandparents and family friends. 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%) on entry. 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 abrdn in writing at any time.

Nominee Accounts and Voting Rights

In common with other schemes of this type, all investments in the abrdn Children's Plan, Investment Trust Share Plan and Investment Trust ISA are held in nominee accounts and investors have full voting and other rights of share ownership.

Dividend Tax Allowance

The annual tax-free personal allowance for dividend income, for UK investors, is £2,000 for the 2022/23 tax year. Above this amount, individuals 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 Ordinary share price appears under the heading 'Investment Companies' in the Financial Times and information of the Company may be found on its dedicated website: **abrdnsmallercompaniesincome.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 latest monthly factsheet on the Company issued by the Manager.

Twitter:

twitter.com/abrdntrusts

LinkedIn:

linkedin.com/company/abrdn -investment-trusts

Details on the Company or literature and application forms on the Manager's investment trust products can be found at:

Website:	**invtrusts.co.uk**
Email:	**inv.trusts@abrdn.com**
Tel:	**0808 500 0040**
Address:	abrdn Investment Trusts PO Box 11020, Chelmsford, Essex CM99 2DB

Terms and conditions for the Manager's investment trust products can be found under the Literature section of the above website.

If you have an administrative query which relates to a direct shareholding in the Company, please contact Equiniti Limited, the Company's Registrars (see page 33 for details).

Any general queries about the Company should be directed to the Company Secretary in writing (see page 33 for details) or by email to **CEF.CoSec@abrdn.com**

Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Company's website.

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 so that the securities issued by the Company can be recommended by a financial adviser to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream pooled investments ("NMPIs") and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the FCA's restrictions which apply to NMPIs because they are securities issued by an investment trust.

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 a self-invested personal pension ("SIPP"). Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines.

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 advises on investment trusts, visit: **unbiased.co.uk**

Investor Information

Continued

Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the FCA:

Tel:	**0800 111 6768** or
Website:	**fca.org.uk/firms/financial-services-register**
Email:	**consumer.queries@fca.org.uk**

Investor Warning: Be alert to share fraud and boiler room scams

The Board has been made aware by abrdn that some investors have received telephone calls from people purporting to work for abrdn, 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 abrdn and any third party making such offers has no link with abrdn. abrdn 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 abrdn's investor services centre using the details provided on page 33.

The FCA provides advice with respect to share fraud and boiler room scams at: **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 above information 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 abrdn Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Contact Addresses

Directors
Dagmar Kent Kershaw, Chair
Rosalyn Breedy
David Fletcher
Christopher Metcalfe

Alternative Investment Fund Manager
abrdn Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH

(Authorised and regulated by the FCA)

Investment Manager
Aberdeen Asset Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH

(Authorised and regulated by the FCA)

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

Telephone: 0131 372 2200

Email: CEF.CoSec@abrdn.com

Company Registration Number
SC137448 (Scotland)

Website
abrdnsmallercompaniesincome.co.uk

Broker
Winterflood Securities

Auditors
Ernst & Young LLP

Depositary
BNP Paribas Trust Corporation UK Limited (During the period the Depositary was BNP Paribas Securities Services, London Branch. The depositary agreement was novated to BNP Paribas Trust Corporation UK Limited on 30 June 2022)

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

Telephone: 0371 384 2030
Overseas: +44 (0)371 384 2030
Textel/Hard of hearing line: 0371 384 2255

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

Foreign Account Tax Compliance Act ("FATCA")
IRS Registration Number (GIIN): DGR5S1.99999.SL.826

Legal Entity Identifier
213800J6D2TVHRGKBG24

Pre-investment Disclosure Document (PIDD)
The Alternative Investment Fund Managers Directive requires abrdn Fund Managers Limited, as the alternative investment fund manager of abrdn Smaller Companies Income Trust plc, to make available to investors certain information prior to such investors' investment in the Company.

The Company's PIDD is available for viewing on the Company's website.

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Objective and Purpose

The objective and purpose of abrdn Smaller Companies Income Trust plc (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.

Benchmark

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

Management

The Company's alternative investment fund manager is abrdn Fund Managers Limited ("aFML" or the "Manager") (authorised and regulated by the Financial Conduct Authority ("FCA")). 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 aFML and AAML

For more information visit **abrdnsmallercompaniesincome.co.uk**