abrdn UK Smaller Companies Growth Trust plc

(formerly Standard Life UK Smaller Companies Trust plc)

Half Yearly Report 31 December 2021

Capturing the growth potential of UK smaller companies

abrdn.com

Contents

Investment Objective

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

Reference Index

The Company's reference index is the Numis Smaller Companies plus AIM (ex investment companies) Index.

Performance Highlights and Financial Calendar

Net asset value total return[A]
Six months ended 31 December 2021
+12.4%
Year ended 30 June 2021 +41.9%

Share price total return[A]
Six months ended 31 December 2021
+10.1%
Year ended 30 June 2021 +46.9%

Reference Index total return
Six months ended 31 December 2021
+3.1%
Year ended 30 June 2021 +52.3%

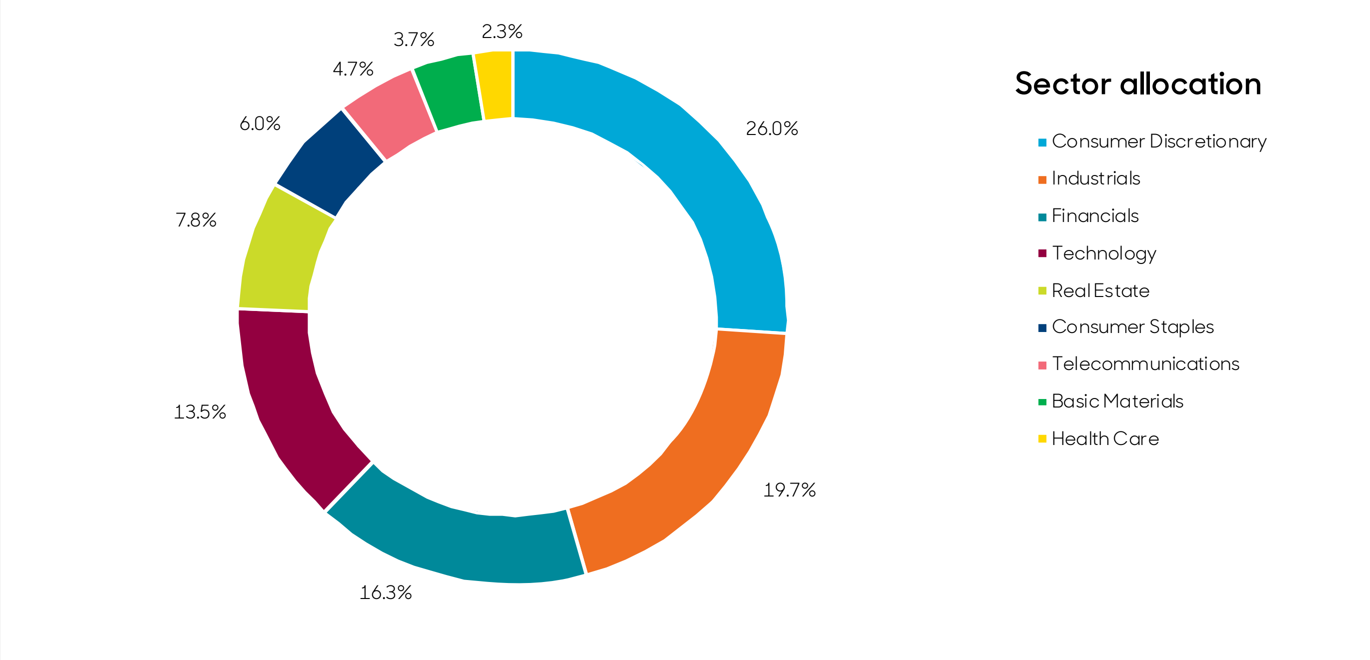
Discount to net asset value[A]
As at 31 December 2021
7.4%
As at 30 June 2021 5.4%

Revenue return per share
Six months ended 31 December 2021
4.26p
Six months ended 31 December 2020 3.41p

Ongoing charges ratio[A]
Forecast year ending 30 June 2022
0.81%
Year ended 30 June 2021 0.88%

[A] Considered to be an Alternative Performance Measure as defined on pages 27 and 28.

Investment Portfolio by Sector



Financial Calendar

Payment of interim dividend for the year ending 30 June 2022	**8 April 2022**
Financial year end	**30 June 2022**
Announcement of results for year ending 30 June 2022	**August 2022**
Annual General Meeting	**20 October 2022**
Payment of final dividend for the year ending 30 June 2022	**28 October 2022**

Financial Highlights

	31 December 2021	30 June 2021	% change
Capital return			
Total assets[A]	**£862.8m**	£793.2m	+8.8%
Equity shareholders' funds	**£797.8m**	£728.2m	+9.6%
Market capitalisation	**£738.7m**	£688.8m	+7.2%
Net asset value per share[B]	**824.09p**	737.97p	+11.7%
Share price	**763.00p**	698.00p	+9.3%
Discount to net asset value[C]	**7.4%**	5.4%	
Net gearing[C]	**6.0%**	5.7%	
Reference index	**7,116.46**	6,977.10	+2.0%
Dividends and earnings			
Revenue return per Ordinary share[D]	**4.26p**	3.41p	+24.9%
Interim dividend per share	**2.70p**	2.70p	–
Operating costs			
Ongoing charges ratio[CF]	**0.81%**[E]	0.88%	

[A] Defined as total assets per the Statement of Financial Position less current liabilities (before deduction of bank loans).
[B] With debt at par value.
[C] Considered to be an Alternative Performance Measure as defined on pages 27 and 28.
[D] Figure for 31 December 2021 is for the six months to that date. Figure for 30 June 2021 is for the six months to 31 December 2020.
[E] The ongoing charges ratio for the current year includes a forecast of costs, charges and net assets for the six months to 30 June 2022.
[F] 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 Company's net asset value total return was 12.4% for the six months to 31 December 2021, while the share price total return was 10.1%. This compares favourably with a total return of 3.1% for the Company's reference index, the Numis Smaller Companies plus AIM (ex investment companies) Index."

Chairman's Statement

Performance

The Company's net asset value ("NAV") total return was 12.4% for the six months to 31 December 2021, while the share price total return was 10.1%. This compares favourably with a total return of 3.1% for the Company's reference index, the Numis Smaller Companies plus AIM (ex investment companies) Index (the "Reference Index").

From a performance perspective, we appear to be continuing to ride a form of rollercoaster. In the year to 30 June 2021 the Company underperformed the Reference Index by over 10%, while in the last six months the situation has reversed and the portfolio has outperformed by over 9%. Put together, the Company has marginally outperformed the Reference Index over the 18 months. This supports the Investment Manager's assertion that the investment process should outperform the Reference Index over longer term periods, even if there will be periods of underperformance.

The Investment Manager's Review provides further information on stock performance and portfolio activity during the period, as well as the Investment Manager's outlook for smaller companies.

Earnings and Dividends

The revenue return per share for the six months to 31 December 2021 increased by 24.9% to 4.26p (2020 – 3.41p), with underlying dividends from investee companies rising by 23.9% on a per share basis compared to the same period last year. The increase in the revenue return is a consequence of the recovery that we have seen as companies adapt to the new operating environment that has evolved in the wake of the Covid pandemic. Dividends per share received by the Company are back in line with where they were in December 2019.

This recovery is very welcome and it is encouraging that the Investment Manager now expects that net earnings for the current year should exceed the level of the dividend paid last year. In the context of the dividend, the Board's priority is to ensure that shareholders receive a dividend at least equal to last year. It is, however, conscious of the impact of the volatility that we have seen of late, and the possibility of future challenges to the revenue account. The Board is therefore declaring an interim dividend of 2.70p per share (2021: 2.70p per share) and this will be paid on 8 April 2022 to shareholders on the register on 11 March 2022 with an associated ex-dividend date of 10 March 2022. Based on its current forecast for earnings and subject to there being no unforeseen circumstances, the Board expects to maintain the full year dividend at the same level as last year and to start the process of replenishing revenue reserves which have been depleted over the last two years.

The Board is declaring an interim dividend of 2.70p per share (2021: 2.70p per share) and this will be paid on 8 April 2022 to shareholders on the register on 11 March 2022.

Gearing

At the end of the period the gearing, net of cash, was 6.0% (30 June 2021: 5.7%). The Company has fully drawn down on its borrowing facilities of £65 million and had almost £17 million of cash on the balance sheet at the end of the period. The Investment Manager is seeing a strong pipeline of new issues and expects to invest some of this in the coming months.

The borrowing facilities expire on 31 October 2022. The Board is expecting to refinance the facilities and will be starting the process of doing so shortly.

Total returns to 31 December 2021	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[A]	+12.4	+30.5	+94.8	+123.5	+388.6
Share price[A]	+10.1	+22.1	+95.3	+126.1	+387.3
Reference Index[B]	+3.1	+20.0	+53.9	+54.7	+232.0
Peer Group weighted average (NAV)	+4.0	+28.3	+62.1	+77.4	+296.0
Peer Group weighted average (share price)	+2.6	+22.8	+65.8	+92.0	+362.8

[A] Considered to be an Alternative Performance Measure.
[B] Numis Smaller Companies including AIM (ex investment companies) Index, prior to 1 January 2018 Numis Smaller Companies (ex investment companies) Index.
Source: abrdn and Refinitiv Datastream

Discount Control and Share Buy Backs

At 31 December 2021 the Company's shares were trading at a discount of 7.4% to its NAV per share, including income with debt at fair value. This was slightly wider than the position at the end of June 2021 when the discount was 5.4%. The Board continues to operate a discount control mechanism which targets a maximum discount of the share price to the cum-income NAV of 8% under normal market conditions. During the period, the Company bought back 1,873,583 shares (1.9% of the issued share capital) at a weighted average price of 731.34p, which equated to an average discount of 6.4%.

Amendment to Investment Policy

During the period, the Board and Investment Manager reviewed the guidelines governing the management of the portfolio and determined that the part of the investment policy relating to the number of holdings should be amended from its current articulation of around 50 holdings to state that the portfolio will normally comprise between 50-60 holdings representing the Investment Manager's highest conviction investment ideas. This amendment is more reflective of the number of holdings that have been in the portfolio over the past few years and the number that the Investment Manager would typically expect to hold. As at 31 December 2021 there were 53 holdings in the portfolio. This amendment does not represent a change in the way that the portfolio is managed and it is not a material change to the investment policy that would require shareholder approval.

'Meet the Manager' Presentation

In order to give shareholders an opportunity to meet the Board and the Investment Manager, the Board will hold an investor presentation in the Manager's office, Bow Bells House, 1 Bread Street, London EC4M 9HH at 12 noon on Friday 20 May 2022 which will be followed by lunch. This event is in place of the original date of 25 November 2021 which unfortunately had to be postponed. Anyone who had signed up for the original date will be contacted and offered a priority place at the event on 20 May.

Invitations are included with the Half Yearly Report and a copy can be downloaded from the Company's website. Due to capacity limitations, shareholders will only be permitted to attend the event if a request to do so has been returned and acknowledged by the Manager who will be co-ordinating the event.

Covid-19 restrictions may place restrictions on our ability to hold the presentation, or limit the number of shareholders who can attend. If this turns out to be the case, we will make an announcement on the Company's website and communicate as appropriate with those shareholders who have submitted a request to attend.

Outlook

There are a number of uncertainties impacting the immediate outlook for markets, including the tension between Russia and Ukraine, inflation, and the Covid pandemic. Whilst these issues present near term challenges for the market, diligent and objective analysis, coupled with years of experience, allow the Portfolio Managers to look through the noise with a view to identifying those companies and managements that are well placed to navigate these difficult periods. One of the features of the way in which the investment process works is that the companies held in the portfolio are often market leaders in their particular area of expertise. As a consequence, during inflationary periods such as these, they are often well placed to pass on cost increases to their customers, preserving their margins.

The Board has noted the fall in the share price and the NAV per share since the end of the period, each by more than 19%. This is evidence of the significant and severe rotation that we have seen in the market where investors have been moving out of quality and growth stocks and into value. This is an established phase in the market cycle and, while it makes for grim reading, the Portfolio Managers do not believe that they should try to become timing experts to try to time the change in market sentiment. Past experience leads them to conclude that this phase in the cycle should not be long lasting and that this will, over the longer term, come to be seen as a blip. The Board understands the premise and supports the stance that the Portfolio Managers have taken and I hope that we will be able to confirm this to have been the case when we report on the full year results in the summer.

Liz Airey
Chairman
24 February 2022

Other Matters

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 Financial Reporting Standard 104 'Interim Financial Reporting';
- The Interim Board Report (constituting the interim management report) includes a fair review of the information required by DTR 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 year; and
- The financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance 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 ended 31 December 2021 comprises an Interim Management Report, in the form of the Chairman's Statement and Other Matters, the Investment Manager's Review, Portfolio Information and a condensed set of Financial Statements which has not been reviewed or audited by the Company's auditor.

Principal Risks and Uncertainties

The Board regularly reviews the principal risks and uncertainties faced by the Company together with the mitigating actions it has established to manage the risks. These are set out within the Strategic Report contained within the Annual Report for the year ended 30 June 2021 and comprise the following risk categories:

- Strategy
- Investment performance
- Key person risk
- Share price
- Financial instruments
- Financial obligations
- Regulatory
- Operational
- Covid-19 and Brexit

The Company's principal risks and uncertainties have not changed materially since the date of the Annual Report and no material change is foreseen in the principal risks over the remainder of the financial year.

Going Concern

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

As at 31 December 2021, the Company had a £65 million unsecured loan facility agreement with The Royal Bank of Scotland International Limited which matures on 31 October 2022. This consists of a five year, fixed-rate term loan facility of £25 million and a revolving credit facility of £40 million. The Board is expecting to refinance the facilities and will be starting the process of doing so shortly.

The Directors are mindful of the Principal Risks and Uncertainties summarised above and they believe that the Company has adequate financial resources to continue in operational existence for a period of not less than 12 months from the date of approval of this Report. They have arrived at this conclusion having confirmed that the Company's diversified portfolio of realisable securities is sufficiently liquid and could be used to meet short-term funding requirements were they to arise. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Condensed Statement of Financial Position as at 31 December 2021 which shows net current liabilities of £48.6 million at that date. Taking all of this into account, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board
Liz Airey,
Chairman
24 February 2022

Investment Manager's Review

The net asset value total return for the Company for the six months to 31 December 2021 was 12.4% while the share price total return was 10.1%. By contrast, the UK smaller companies sector as represented by the Numis Smaller Companies plus AIM (excluding Investment Companies) Index (the "Reference Index") delivered a total return of 3.1% over the period. Over the same period, the FTSE 100 Index of the largest UK listed companies returned 6.8%. abrdn has managed the Company since 1 September 2003. The Company's share price at that time was 47.75p, compared to 763.0p at 31 December 2021. The share price total return was 2,001% from then to the current period end compared with the Reference Index's total return of 603%. The FTSE 100 Index's total return was 249% over the same period.

Equity Markets

The Reference Index advanced strongly through July and August, in a month of relatively quiet news flow. UK stocks performed well, helped by company earnings and further easing of Covid-related restrictions. However, Covid-19, the resulting 'pingdemic' and Brexit caused staff shortages and supply chain issues which hit markets in September, hindering many areas but most notably the UK hospitality and retail sectors.

There were widespread falls in share prices in September, as fears over slowing growth and rising inflation spilled into equity markets. In the UK, shares were down over the period, with larger companies outperforming mid-sized and smaller companies. The disruption caused by the fuel shortage dented sentiment, with investors concerned about the longer-term impact of a shortage of delivery drivers on companies' supply chains. The Bank of England became more hawkish about when interest rates would need to rise, which drove gilt yields higher and weighed on investor sentiment.

In December the spread of the Omicron variant of the coronavirus became the obsession. Markets oscillated between concern over the rapid rise in cases and the apparent relatively benign nature of this new variant. The Bank of England, in a surprise move, raised interest rates from 0.1% to 0.25% on 15 December. In the US, the Federal Reserve is also sounding increasingly hawkish on rates.

The big increase in inflation and fear of rising interest rates have already been reflected in commodity prices, not helped by logistics, supply chain and labour shortage issues, however companies are generally learning to cope with these challenges. On the commodity front, Brent Oil, Gold and Copper all tracked sideways during the period.

Semi-conductors in particular remain in short supply although this too may be reaching a peak. Shipping transport remains dislocated and may remain so well into 2022. Shortages of key workers such as lorry drivers remains an issue particularly in post Brexit UK.

Most stock markets around the world tended to show more modest appreciation in the second half of 2021 than the first. China, Japan and Brazil traded off over worries on growth and Covid, while South Africa and India were strong. Nasdaq was relatively robust while a number of European markets, such as Germany and Switzerland, performed strongly. Smaller company markets lagged large caps in the UK although quality and growth stocks performed well as the Omicron panic took over.

The period in question was a good one for our investment process. Quality, Growth and Momentum ("QGM") stocks led the way as Covid recovery remained an issue.

Sector performance was led by five sectors: media, software, real estate, personal goods and leisure goods. The weakest sectors were food producers, telecoms, retailers, travel & leisure and electronics & electricals. Being light in oil & gas was also unhelpful as gas prices increased sharply in the run up to Christmas. Profit warnings were widely in evidence in retailers and certain industrials and consumer goods sectors where logistics and shortages within the supply chain hit home on the real economy.

Bid activity still continues, with the Morrisons deal completing in October 2021. There have been recent bids for U&I Group (real estate) and Playtech in computer gaming software. Private Equity is still much in evidence with the occasional trade buyer.

Investment Manager's Review

Continued

Performance

The period in question was a good one for our investment process. Quality, Growth and Momentum ("QGM") stocks led the way as Covid recovery remained an issue. However, in September markets focused on concerns over rising inflation and the potential knock on effect on interest rates and the economy in general. Logistics and distribution issues, semiconductor and other shortages and wage inflation in key sectors caused considerable concern. Gas price rises were a significant issue. The tail end of the year saw good performance as a number of the leading holdings came out with strong trading statements and Omicron worries grew.

The five leading performers in the period were as follows:-

Safestore +1.3% (+49.9%) saw continued strong trading and expansion in European markets.

Kainos +1.2% (+31.5%) saw more strong trading as digitalisation remains all the rage.

Future +1.0% (+18.0%) saw more upgrades following the earnings enhancing Dennis acquisition.

Impax Asset Management +0.9% (+31.4%). The asset manager for a "better world" is hitting the spot and seeing strong inflows.

Alpha Financial Markets +0.8% (+35.2%). This consultant to the asset management industry is beating expectations as it grows both by sector and geographically

The five worst performers in the period were as follows:-

Gamma Communications -0.6% (-16.9%). Unusually, results from this telecoms company have no upgrades this time. The European expansion appears to be a little slower than expected.

AO World -0.6% (-58.0%) has warned on results, particularly in Germany, where it struggles to gain market share profitably. We consider that this company has developed a tendency for over promising and under-delivering. The holding has been sold.

Victorian Plumbing -0.5% (-66.4%) issued an inaugural profit warning which was poorly received. The holding has been sold.

Gear4Music -0.3% (-28.0%) came unstuck in a post-Brexit, supply dislocation dominated world.

Games Workshop -0.3% (-11.7%) has struggled to continue its superlative record of growth and has faced supply shortages.

Dealing and Activity

Turnover remained modest during the period in question. Three new holdings were added to the portfolio, including electronic tagging company Big Technologies, whose founder Sara Murray formerly founded Go Compare. LBG Media was bought as a new issue. This global new media company is growing rapidly and expanding its geographic and customer reach. Tatton Asset Management was also a new addition. Tatton provides a range of platform services to financial advisors across the UK.

Seven holdings were sold completely. Sanne, the fund administrator and Sumo, the video games developer were sold as they were in receipt of agreed bids. AO World encountered issues in the German market which looked to be more than just short term. Victorian Plumbing issued a major profit warning as it was hit by stock issues. Avon Protection, in body armour, recorded significant product failures while James Fisher, the marine engineer, seems to have lost control of a number of its subsidiaries. RWS was sold over concerns over the CEO departure and an acquisition over which we have concerns. The latter five sales all had poor Matrix scores.

Significant purchases included Robert Walters, the global recruitment company, Watches of Switzerland, Hotel Chocolat, CVS in veterinary medicine and Moonpig, the online card retailer. Other major sales represented taking profits in the two largest holdings Future (digital media) and Kainos (digitalisation) as they both threatened to become more than 5% of the overall portfolio.

Sector Exposure

The leading sectors at the time of writing are financial services, software, support services, media, leisure goods, real estate, food manufacturers and telecoms. Increases in exposure took place in financial services, media and personal goods. Increases in weightings occurred mainly due to relative stock performance. Financials and leisure have seen falls as the two stocks that are in receipt of agreed bids, have been sold. Falls in sector exposure also took place in software and retailers. The Company holds no materials, oil & gas, household goods and home construction and remains underweight in healthcare.

Discount

At 31 December 2021 the cum-income discount to NAV stood at 7.4%. The simple average discount for the close peers as a whole was 6.9%.

Gearing

The level of gearing at 31 December 2021 was 6.0%. Gearing is likely to remain at or around current levels for the moment, reflecting our positive view on the medium to long-term prospects for smaller companies. We are expecting a number of placings in the next few weeks which could lead to a reduction in the cash balance in the portfolio.

Dividends

Further good progress on dividends is evident. It is notable that within the top ten holdings the rate of dividend growth has accelerated, averaging around +18% in the most recent period. Only one top ten holding (Watches of Switzerland) does not pay a dividend while Bytes Technology paid a dividend for the first time. The bulk of companies that cut dividends as a result of the impact of Covid have now reinstated them, however some have used the pandemic as a reason to focus more of their cashflow on growth rather than paying dividends, such as Hotel Chocolat. CVS, however, has resumed dividend payments. A number of the new holdings are not payers, such as Watches of Switzerland, Ergomed, Molten Ventures (previously known as Draper Esprit), Trustpilot and Auction Technology. The percentage of non-payers has gone up from around 12% to just under 20% of the portfolio. This is higher than historically has been the case, but this is partly because we have been recycling the proceeds of selling out of companies that have outgrown the mandate into the next batch of smaller companies. Given the strength of the income stream from the portfolio as a whole, we are comfortable with this position.

Outlook

The world is splitting into two camps when it comes to the approach to the Omicron variant of the coronavirus. The UK, Europe and the US are tending to relax the rules on travel and quarantine. They take the view that it is futile to try and stand in the way of such a contagious disease and in any case vaccine levels are high and symptoms are generally modest. Others in the Far East, such as China, Japan and South Korea, are imposing draconian restrictions. The former has led to optimism on growth but accompanied by rising inflation and indeed actual or potential rate rises. In the Far East, the heavy restrictions mainly mean that growth will be subdued.

At the time of writing we have seen a massive style shift from quality, growth and momentum to recovery, oil & gas and value in 2022. Under-performance of the portfolio at the very start of 2022 has been prodigious and, while the Reference Index fell by over 6% in January, the NAV total return of the Company was almost -14%. New years quite often lead to style rotations and indeed it is conceivable that the current value rally may last a number of weeks. Indeed we may have to wait until the March/April reporting season before normal service is resumed.

Most countries are trying to return to normal with significant relaxations in restrictions. This is certainly the case in most parts of the UK. However, when new flare ups occur in Far East countries strict measures are taken. This all has a negative impact on economic growth although much ground has been made up since the height of the Covid emergency.

Rising inflation is an issue for market levels and is likely to result in policy changes at central banks, making interest rate rises a racing certainty in the next few months. Economic growth has returned but it has been accompanied by major shortages and dislocations across many sectors. It is noticeable that most of the Company's retail holdings warned about the impact on earnings forecasts of disruption to supply chains. International logistics challenges and labour shortages across key sectors such as trucking are likely to remain for many months to come. The UK has the added disadvantage of the impact of Brexit.

We are now through the first stage of the economic recovery and are in a somewhat dangerous stage in the cycle, as the market waits for interest rates to rise as inflation goes up. The holdings in the portfolio, apart from small pockets impacted by supply chain disruptions, are in good shape judging by the most recent results season. Their QGM characteristics indicate to us that they should be able to ride out choppy market conditions as the strong get stronger in each new economic cycle however, in the short term, if markets continue to focus on recovery sectors, performance could continue to be hit hard. The new issues market is quieter but there are still a number of interesting companies that might look to list if our meeting schedules are anything to go by.

We are now through the first stage of the economic recovery and are in a somewhat dangerous stage in the economic cycle, as the market waits for interest rates to rise as inflation goes up.

As we have said before, our process remains unchanged. Our emphasis on risk aversion, resilience, growth and momentum still feels right for the future over all time periods except the short term. Caution should be the watch-word however. Smaller company investing should be viewed as a long-term investment and we have no doubt that patient investors will be rewarded in the longer term. Our stable process has been seasoned by fully four economic cycles. We remain very optimistic about the future of the Company in the long term.

Harry Nimmo and Abby Glennie,
abrdn
24 February 2022

Investment Process

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

Management

The Company's Manager is Aberdeen Standard Fund Managers Limited ("ASFML", the "AIFM" or the "Manager"). ASFML is a wholly-owned subsidiary of abrdn plc ("abrdn"). The Company's portfolio is managed by abrdn Investment Management Limited (the "Investment Manager") by way of a group delegation agreement in place between it and ASFML. Harry Nimmo has been the Portfolio Manager since 2003 and Abby Glennie was appointed as Co-Manager in November 2020. They are part of a team focusing on investing in smaller and mid-sized companies.

Investment Philosophy and Process

The Board has identified that abrdn has a proven and repeatable investment process, which has delivered strong returns to shareholders over the last 18 years. The investment process adheres to the abrdn Smaller Companies' Quality, Growth and Momentum led philosophy. The Investment Manager aims to select lower risk smaller companies in growing markets where business momentum is positive, predictable and improving. The Investment Manager has a long-term investment horizon, aiming to maximise returns by running winners in the long term and cutting losers. The investment process embeds abrdn's Environmental, Social and Governance principles.

The Matrix

In managing the Company's investment portfolio, the Quality, Growth and Momentum philosophy is enhanced by using abrdn's proprietary screening tool, 'The Matrix', to focus research efforts and the stock selection process. The Matrix is a quantitative screening tool assessing potential and current investments on 13 separate proven indicators of financial performance. It is a powerful tool in helping the Portfolio Managers identify a shortlist of investable stocks for further analysis and monitoring the performance and prospects of the portfolio. Stocks that are identified in this way are then subjected to further analysis and may be selected for the portfolio following discussions with company management.

Investment Process

Continued

When building a portfolio of smaller companies, the Investment Manager screens stocks using the Matrix and also considers a number of qualitative factors to help identify the best investment opportunities.

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

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

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

4. Concentrate the effort
The Matrix helps identify the likely candidates for inclusion in the portfolio and reduces the risk that effort is spent on stocks that will not fulfil the criteria for inclusion within the portfolio.

5. Management longevity
Founders retaining positions of authority within the companies after flotation, along with longevity of tenure by CEOs are positive signals. Four of the top 10 holdings in the portfolio are run by CEOs who have been with their business for over 20 years.

6. Valuation is secondary
Invest in companies which demonstrate positive earnings momentum as the team believes that it is a reliable predictor of future performance

Ten Largest Investments

As at 31 December 2021

Future
Future publishes special-interest consumer magazines, applications and websites.

Kainos
Kainos is a digital services company offering information technology products and services to clients in a range of markets, including government, healthcare and financial services.

Impax Asset Management
Impax Asset Management is a specialist asset manager focused on investing for a sustainable economy.

Safestore
Safestore is a self-storage business operating in the UK and France.

Watches of Switzerland
Watches of Switzerland is a premium retailer and trusted partner of the watch brands. It has a strong market position in UK, growing in US, and is looking to enter Europe.

Gamma Communications
Gamma Communications is a mid-sized telecoms company that supplies voice, data and mobile products and services in the UK. It provides fixed telephony, IP telephony, hosted phone systems, broadband and data connections, mobile services and unified communication solutions.

XP Power
XP Power is a designer and manufacturer of low power, low noise, highly efficient electric motors and electronic systems. It manufactures in China and Vietnam.

Alpha Financial Markets
Alpha Financial Markets is a founder-led consultancy firm, with focus on asset management and insurance industries. UK and US focused. It is growing through organic growth and complementary accretive bolt on acquisitions.

Hilton Food
Hilton Food is a founder-run beef and fish packer. It works closely with food retailers across Europe and Australasia.

Next 15 Communications
Next 15 Communications is a digital communications business with global exposure, offering a range of services to its customer base, including many blue chip companies.

Investment Portfolio

At 31 December 2021

Company	Sector	Market value £'000	Total assets %
Future	Media	39,645	4.6
Kainos	Software and Computer Services	36,676	4.2
Impax Asset Management	Investment Banking and Brokerage Services	29,390	3.4
Safestore	Real Estate Investment Trusts	28,970	3.4
Watches of Switzerland	Personal Goods	27,763	3.2
Gamma Communications	Telecommunications Service Providers	26,415	3.1
XP Power	Electronic and Electrical Equipment	24,380	2.8
Alpha Financial Markets	Industrial Support Services	24,250	2.8
Hilton Food	Food Producers	22,372	2.6
Next 15 Communications	Media	22,016	2.6
Top ten investments		**281,877**	**32.7**
Mortgage Advice Bureau	Finance and Credit Services	21,929	2.6
Diploma	Industrial Support Services	21,634	2.5
Bytes Technology	Software and Computer Services	21,000	2.4
Auction Technology	Software and Computer Services	20,205	2.3
Focusrite	Leisure Goods	20,165	2.3
Ergomed	Pharmaceuticals and Biotechnology	19,803	2.3
discoverIE	Technology Hardware and Equipment	19,299	2.2
JTC	Investment Banking and Brokerage Services	18,934	2.2
Sirius Real Estate	Real Estate Investment and Services	18,793	2.2
Team 17	Leisure Goods	18,717	2.2
Top twenty investments		**482,356**	**55.9**
Cranswick	Food Producers	18,332	2.1
Liontrust Asset Management	Investment Banking and Brokerage Services	17,008	2.0
Marshalls	Construction and Materials	16,904	2.0
Hill & Smith	Industrial Metals and Mining	16,787	1.9
Games Workshop	Leisure Goods	16,377	1.9
GB Group	Software and Computer Services	15,880	1.9
Clipper Logistics	Industrial Support Services	15,399	1.8
Morgan Sindall	Construction and Materials	15,120	1.8
Intermediate Capital	Investment Banking and Brokerage Services	14,139	1.6
Treatt	Chemicals	14,084	1.6
Top thirty investments		**642,386**	**74.5**

At 31 December 2021

Company	Sector	Market value £'000	Total assets %
GlobalData	Media	13,803	1.6
Robert Walters	Industrial Support Services	13,701	1.6
Telecom Plus	Telecommunications Service Providers	13,534	1.6
AJ Bell	Investment Banking and Brokerage Services	12,897	1.5
Big Technologies	Software and Computer Services	12,489	1.4
Molten Ventures (previously known as Draper Esprit)	Investment Banking and Brokerage Services	12,258	1.4
Midwich	Industrial Support Services	10,815	1.2
Big Yellow	Real Estate Investment Trusts	10,455	1.2
CVS	Consumer Services	10,152	1.2
Hotel Chocolat	Food Producers	10,023	1.2
Top forty investments		**762,513**	**88.4**
4imprint	Media	8,491	1.0
Trustpilot	Software and Computer Services	8,216	1.0
Moonpig	Retailers	7,797	0.9
Henry Boot	Real Estate Investment and Services	7,559	0.9
Mattioli Woods	Investment Banking and Brokerage Services	7,428	0.9
Jet2	Travel and Leisure	7,001	0.8
Gear4Music	Leisure Goods	6,753	0.8
LBG Media	Media	6,476	0.7
Motorpoint	Retailers	6,318	0.7
Inspecs	Personal Goods	5,333	0.6
Top fifty investments		**833,885**	**96.7**
Gooch & Housego	Technology Hardware and Equipment	5,058	0.6
Tatton Asset Management	Investment Banking and Brokerage Services	3,881	0.4
Hollywood Bowl	Travel and Leisure	3,524	0.4
Total portfolio		**846,348**	**98.1**
Net current assets[A]		16,418	1.9
Total assets		**862,766**	**100.0**

[A] Current assets less current liabilities. Excludes bank loans of £64,969,000.

Investment Case Studies

Alpha Financial Markets

Founded in 2003 in the UK, Alpha Financial Markets ("Alpha") is a global provider of specialist consultancy services to the asset/wealth management industry. The business has the largest dedicated team in the industry, with 400 consultants operating from 12 offices in the UK, Europe, the US and Asia. Its point of difference centres on the industry-leading consulting expertise and proprietary benchmarking data. The business hires top performers from its competitors, namely the Big 4 accounting firms and consultants such as Accenture. The ability to attract and retain talent is central to the success of the Alpha model.

Since listing on AIM in October 2017, management has developed a consistent track record of operational delivery and upgrades to earnings estimates. The brand strength, blue chip client base, competitive positioning, barriers to entry, strong cash generation and balance sheet strength all satisfy the quality requirements of our process. Margins are high and sustainable and profits can be reinvested for bolt on acquisitions and increase headcount/teams to maintain returns. The highly focused market proposition, together with the company's strong reputation in the industry, enables it regularly to win contracts without competing on price.

From an ESG perspective, the business is growing its proposition to clients and helping to shape the ESG focus, strategy and reporting across the asset management sector. The business itself is low energy intensity, and Covid has been a good opportunity for the company to limit employee travel only to when its customers require it. The company has a strong corporate culture, with low staff turnover, and attractive training and development programmes.

In May 2021, Alpha increased exposure to high growth markets with the acquisition of Lionpoint, a US-based consultant to the Alternative Investment Industry. Alpha's management has articulated a clear strategy to double the size of the business over the next four years. This will come from underlying organic growth in existing markets, tripling the size of the North American business, scaling in insurance consulting and further acquisitions of consulting and data/product businesses.

Alpha has a capital-light, cash-generative business model and its sizeable net cash position supports the 2.3% dividend yield and future M&A ambitions.

The strong fundamentals, structural drivers and the quality of Alpha's proposition, together with the stated aspiration to double the size of the business in the next four years support our investment case from here.

Clipper Logistics

Clipper Logistics ("Clipper") has a highly differentiated business model, focusing on delivering the value added components of logistics and advising retailer customers in UK and Europe on carrier selection for haulage. Growth has been rapid, boosted by the Covid pandemic and, despite a tough comparative period, revenue and profits are expected to rise at a double digit rate for the next four years. Barriers to entry and change are high, giving excellent customer retention, market leading margins and revenue visibility.

Customer solutions are typically complex, business critical and reduce the cost, risk and intricacy of the retail supply chain. The company's returns product, Boomerang, provides real-time stock data, supports rapid refunds and rapidly repackages returns for resale at full price through the retailer's own sales channel, supporting retailer margins. Clipper can also repair faulty items including electricals, and is the only end-to-end supplier of these services.

Clipper generates margins significantly above the industry average through performance incentives on top of the management fees, with low capital intensity. As the focus is on retail, with fashion, beauty and luxury goods representing 60% of e-commerce revenues, products can be comingled and warehouse space shared, allowing customers to reduce costs and Clipper to generate high returns.

ESG is central to Clipper's way of working, and driving environmental and social change is one of its four key strategic pillars. The company has introduced personal ESG objectives to its remuneration schemes for directors, created a board ESG champion and appointed a Head of Sustainability. Through its regular business activities, Clipper is seeking to increase efficiency by streamlining processes, reducing the distance that goods are transported and minimising waste by allowing returned goods to be resold. However, it is in the social side that Clipper really stands out with its work with the NHS and Fresh Start schemes to train and employ those with disabilities, both learning and physical, ex-offenders and many others from disadvantaged positions.

The outlook for Clipper's business is attractive as trading continues to be strong, with new contract awards and contract extension announcements. Management continues to look for acquisitions in Europe and the US that would be value accretive. These are much larger markets than the UK, and both lack an end-to-end supplier with Clipper's skill-set. We consider that the management team is the best in the business at what they do in the UK and we are invested on the basis that it can replicate the outcomes it has delivered in the UK in Europe.

Condensed Statement of Comprehensive Income (unaudited)

		Six months ended 31 December 2021			Six months ended 31 December 2020		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value			**86,500**	**86,500**	–	113,719	113,719
Income	2	**5,397**	**–**	**5,397**	4,457	–	4,457
Investment management fee		**(669)**	**(2,007)**	**(2,676)**	(547)	(1,642)	(2,189)
Administrative expenses		**(427)**	**–**	**(427)**	(412)	–	(412)
Net return before finance costs and taxation		**4,301**	**84,493**	**88,794**	3,498	112,077	115,575
Finance costs		**(140)**	**(418)**	**(558)**	(92)	(277)	(369)
Return before taxation		**4,161**	**84,075**	**88,236**	3,406	111,800	115,206
Taxation	3	**–**	**–**	**–**	–	–	–
Return after taxation		**4,161**	**84,075**	**88,236**	3,406	111,800	115,206
Return per Ordinary share (pence)	5	**4.26**	**86.03**	**90.29**	3.41	112.06	115.47

The total column of the condensed Statement of Comprehensive Income represents the profit and loss account of the Company.

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

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

Condensed Statement of Financial Position (unaudited)

	Notes	As at 31 December 2021 £'000	As at 30 June 2021 £'000
Non-current assets			
Investments held at fair value through profit or loss		**846,348**	770,003
Current assets			
Debtors		**1,458**	2,238
Investments in AAA-rated money-market funds		**16,967**	22,636
Cash and short-term deposits		**–**	95
		18,425	24,969
Current liabilities			
Creditors: amounts falling due within one year		**(2,006)**	(1,775)
Bank loan		**(64,969)**	(40,000)
Bank overdraft		**(1)**	–
		(66,976)	(41,775)
Net current liabilities		**(48,551)**	(16,806)
Total assets less current liabilities		**797,797**	753,197
Creditors: amounts falling due in more than one year			
Bank loan	8	**–**	(24,951)
Net assets		**797,797**	728,246
Capital and reserves			
Called-up share capital		**26,041**	26,041
Share premium account		**170,146**	170,146
Special reserve		**6,331**	20,132
Capital reserve		**588,470**	504,395
Revenue reserve		**6,809**	7,532
Equity shareholders' funds		**797,797**	728,246
Net asset value per Ordinary share (pence)	7	**824.09**	737.97

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

Condensed Statement of Changes in Equity (unaudited)

Six months ended 31 December 2021

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2021	26,041	170,146	20,132	504,395	7,532	728,246
Return after taxation	–	–	–	84,075	4,161	88,236
Buyback of shares into Treasury	–	–	(13,801)	–	–	(13,801)
Dividends paid (see note 4)	–	–	–	–	(4,884)	(4,884)
Balance at 31 December 2021	26,041	170,146	6,331	588,470	6,809	797,797

Six months ended 31 December 2020

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2020	26,041	170,146	28,534	294,551	8,804	528,076
Return after taxation	–	–	–	111,800	3,406	115,206
Buyback of shares into Treasury	–	–	(3,874)	–	–	(3,874)
Dividends paid (see note 4)	–	–	–	–	(4,986)	(4,986)
Balance at 31 December 2020	26,041	170,146	24,660	406,351	7,224	634,422

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

Condensed Statement of Cash Flows (unaudited)

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000
Operating activities		
Net return before finance costs and taxation	**88,794**	115,575
Adjustment for:		
Gains on investments	**(86,500)**	(113,719)
Decrease/(increase) in accrued income	**360**	(761)
Increase in other debtors	**(2)**	(4)
Increase in other creditors	**117**	128
Net cash inflow from operating activities	**2,769**	1,219
Investing activities		
Purchases of investments	**(52,962)**	(57,735)
Sales of investments	**63,504**	43,025
Purchases of AAA-rated money-market funds	**(76,759)**	(35,367)
Sales of AAA-rated money-market funds	**82,427**	58,005
Net cash inflow from investing activities	**16,210**	7,928
Financing activities		
Interest paid	**(390)**	(352)
Equity dividends paid	**(4,884)**	(4,986)
Buyback of shares	**(13,801)**	(3,874)
Net cash outflow from financing activities	**(19,075)**	(9,212)
Decrease in cash and short-term deposits	**(96)**	(65)
Analysis of changes in cash during the period		
Opening cash and short-term deposits	**95**	49
Decrease in cash and short-term deposits as above	**(96)**	(65)
Closing cash and short-term deposits	**(1)**	(16)

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

Notes to the Financial Statements (unaudited)

1. Accounting policies

Basis of accounting. The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in April 2021. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The half-yearly financial statements have been prepared using the same accounting policies as the preceding annual accounts.

2. Income

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000
Income from investments		
UK dividend income	**4,341**	3,257
Property income distributions	**372**	607
Overseas dividend income	**674**	575
	5,387	4,439
Interest income		
Interest from AAA-rated money-market funds	**10**	18
Total income	**5,397**	4,457

3. Taxation

The taxation expense reflected in the Condensed Statement of Comprehensive Income is based on management's best estimate of the weighted annual corporation tax rate expected for the full financial year. The estimated annual tax rate used for the year to 30 June 2022 is 19%.

4. Ordinary dividend on equity shares

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000
2021 final dividend of 5.00p per share (2020 – 5.00p)	**4,884**	4,986

5. Return per share

	Six months ended 31 December 2021 p	Six months ended 31 December 2020 p
Revenue return	**4.26**	3.41
Capital return	**86.03**	112.06
Total return	**90.29**	115.47

Weighted average number of Ordinary shares	**97,723,664**	99,770,138

The figures above are based on the following:

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000
Revenue return	**4,161**	3,406
Capital return	**84,075**	111,800
Total return	**88,236**	115,206

6. Transaction costs

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

	Six months ended 31 December 2021 £'000	Six months ended 31 December 2020 £'000
Purchases	**130**	159
Sales	**42**	25
	172	184

Notes to the Financial Statements (unaudited)

Continued

7. Net asset value

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

These rights are reflected in the net asset value and the net asset value per share attributable to Ordinary shareholders at the period end.

Net asset value per share	As at 31 December 2021	As at 30 June 2021
Total shareholders' funds (£'000)	**797,797**	728,246
Number of Ordinary shares in issue at the period end[A]	**96,808,983**	98,682,566
Net asset value per share (pence)	**824.09**	737.97

[A] Excluding shares held in treasury.

During the six months ended 31 December 2021 the Company repurchased 1,873,583 Ordinary shares to be held in treasury (31 December 2020 – 697,476) at a cost of £13,801,000 (31 December 2020 – £3,874,000).

As at 31 December 2021 there were 96,808,983 Ordinary shares in issue (30 June 2021 – 98,682,566). There were also 7,355,439 Ordinary shares (30 June 2021 – 5,481,856) held in treasury.

8. Loans

On 1 November 2017 the Company entered into a £45,000,000 unsecured loan facility agreement with The Royal Bank of Scotland International Limited, which was increased to £65,000,000 effective 10 May 2021. The facility consists of a five year fixed-rate term loan facility of £25,000,000 (the "Term Loan") and a revolving credit facility of £40,000,000 (the "RCF"). Both facilities have a maturity date of 31 October 2022.

At 31 December 2021, £25,000,000 of the Term Loan had been drawn down (30 June 2021 – £25,000,000) at a rate of 2.349% (30 June 2021 – 2.349%) and £40,000,000 of the RCF had been drawn down (30 June 2021 – £40,000,000) at a rate of 1.199% (30 June 2021 – 1.201%), with a maturity date of 14 March 2022.

The Term Loan is shown in the Statement of Financial Position net of unamortised expenses of £31,000 (30 June 2021 – £49,000).

9. Analysis of changes in net debt

	At 30 June 2021 £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2021 £'000
Cash and short-term deposits	95	(96)	–	(1)
Investments in AAA-rated money-market funds	22,636	(5,669)	–	16,967
Debt due in less than one year	(40,000)	–	(24,969)	(64,969)
Debt due after more than one year	(24,951)	–	24,951	–
Total net debt	(42,220)	(5,765)	(18)	(48,003)

	At 30 June 2020 £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2020 £'000
Cash and short-term deposits	49	(65)	–	(16)
Investments in AAA-rated money-market funds	26,465	(22,638)	–	3,827
Debt due after more than one year	(24,914)	–	(18)	(24,932)
Total net debt	1,600	(22,703)	(18)	(21,121)

10. Fair value hierarchy

FRS 102 requires an entity 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 shall have the following classifications:

Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (30 June 2021 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (31 December 2021 – £846,348,000; 30 June 2021 – £770,003,000) have therefore been deemed as Level 1.

The investment in AAA rated money-market funds of £16,967,000 (30 June 2021 – £22,636,000) is considered to be Level 2 under the fair value hierarchy of FRS 102 due to not trading in an active market.

Notes to the Financial Statements (unaudited)

Continued

11. Transactions with the Manager

The Company has an agreement with Aberdeen Standard Fund Managers Limited ("ASFML") for the provision of investment management, secretarial, accounting and administration and promotional activity services. During the six months ended 31 December 2021 the management fee paid to ASFML was charged applying a tiered rate of 0.85% to the first £250 million of net assets, 0.65% of net assets between £250 million and £550 million and 0.55% of net assets above £550 million. The contract is terminable by either party on six months' notice.

During the period £2,676,000 (31 December 2020 – £2,189,000) of investment management fees were earned by ASFML, with a balance of £1,359,000 (31 December 2020 – £1,135,000) due at the period end.

ASFML also receive fees for secretarial and administrative services of £75,000 per annum exclusive of VAT.

Until 31 December 2020, ASFML received fees for secretarial and administrative services of (i) £110,000 per annum and (ii) 0.02% of the net asset value of the Company in excess of £70,000,000 (the net asset value of the Company being as shown in the annual accounts of the Company) up to a maximum annual amount of £150,000 exclusive of VAT.

During the period, fees of £38,000 (31 December 2020 – £75,000) exclusive of VAT were earned by ASFML for the provision of secretarial and administration services. The balance due to ASFML at the period end was £68,000 (31 December 2020 – £75,000) exclusive of VAT.

The Manager also receives a separate promotional activities fee which is based on a current annual amount of £200,000 exclusive of VAT payable quarterly in arrears. During the period, fees of £100,000 (31 December 2020 – £50,000) exclusive of VAT were payable to the Manager, with a balance of £50,000 (31 December 2020 – £25,000) exclusive of VAT being due at the period end.

12. Subsequent events

Subsequent to the period end, the Company's NAV has fallen as a result of a decline in stockmarket values. At the date of this Report the latest NAV per share was 666.68p as at the close of business on 22 February 2022, a decline of 19.1% compared to the NAV per share of 824.09p at the period end.

13. Half-Yearly Financial Report

The financial information in this report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the year ended 30 June 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. The half-yearly financial statements have been prepared using the same accounting policies as the preceding annual accounts.

14. This Half-Yearly Financial Report was approved by the Board on 24 February 2022.

Alternative Performance Measures

Alternative performance measures ("APMs") 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 FRS 102 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. Where the calculation of an APM is not detailed within the financial statements, an explanation of the methodology employed is provided below:

Discount

A discount is the percentage by which the market price is lower than the Net Asset Value ("NAV") per share.

	31 December 2021	30 June 2021
Share price	**763.00p**	698.00p
Net Asset Value per share	**824.09p**	737.97p
Discount	**7.4%**	5.4%

Net gearing

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

	31 December 2021 £'000	30 June 2021 £'000
Total borrowings [A]	**(64,969)**	(64,951)
(Bank overdraft)/cash and short-term deposits	**(1)**	95
Investments in AAA-rated money-market funds	**16,967**	22,636
Amounts due from brokers	**209**	631
Amounts payable to brokers	**(85)**	(120)
Total cash and cash equivalents[B]	**17,090**	23,242
Net gearing (borrowings less cash & cash equivalents)[A-B]	**(47,879)**	(41,709)
Shareholders' funds	**797,797**	728,246
Net gearing (borrowings less cash & cash equivalents)	**6.0%**	5.7%

Alternative Performance Measures

Continued

Ongoing charges ratio

The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC, which is defined as the total of investment management fees and recurring administrative expenses and expressed as a percentage of the average daily net asset values published throughout the year. The ratio reported at 31 December 2021 includes actual costs and charges for the six months and includes a forecast for costs, charges and the asset base for the remaining six months of the financial year ending 30 June 2022.

	31 December 2021[A] £'000	30 June 2021[B] £'000
Investment management fees	**5,444**	4,598
Administrative expenses	**853**	828
Less: non-recurring charges[C]	**(6)**	(8)
Ongoing charges	**6,291**	5,418
Average net assets	**790,983**	624,000
Ongoing charges ratio (excluding look-through costs)	**0.80%**	0.87%
Look-through costs[D]	**0.01%**	0.01%
Ongoing charges ratio (including look-through costs)	**0.81%**	0.88%

[A] Forecast for the year ending 30 June 2022, based on estimates as at 31 December 2021.
[B] For the year ended 30 June 2021.
[C] Comprises professional fees not expected to recur.
[D] 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 differs from the other costs figure reported in the Company's Key Information Document calculated in line with the PRIIPs regulations, which includes the ongoing charges ratio and the financing and transaction costs.

Total return

NAV and share price total returns show how the NAV and share price have performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. NAV total return assumes reinvesting the net dividend paid by the Company back into the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return assumes reinvesting the net dividend back into the share price of the Company on the date on which that dividend goes ex-dividend.

Six months ended 31 December 2021	**NAV**	**Share price**
Opening (p)	737.97	698.00
Closing (p)	824.09	763.00
Increase (p)	86.12	65.00
% increase	11.7%	9.3%
Uplift from reinvestment of dividends[A]	0.7%	0.8%
Total return increase	12.4%	10.1%

[A] The uplift from reinvestment of dividends assumes that the dividend of 5.0p in October 2021 paid by the Company was reinvested in the NAV and share price of the Company on the ex-dividend date.

Investor Information

Alternative Investment Fund Managers Directive ("AIFMD") and Pre-Investment Disclosure Document ("PIDD")

The Company has appointed Aberdeen Standard Fund Managers Limited as its alternative investment fund manager and BNP Paribas Securities Services, London Branch as its depositary under the AIFMD.

The AIFMD requires Aberdeen Standard Fund Managers Limited, as the Company's AIFM, to make available to investors certain information prior to such investors' investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website: **abrdnuksmallercompaniesgrowthtrust.co.uk.**

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

abrdn has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment company shares, purporting to work for abrdn or for third party firms. abrdn has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for abrdn and any third party making such offers/claims has no link with abrdn.

abrdn does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

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

Shareholder Enquiries

For queries regarding shareholdings, lost certificates, dividend payments, registered details and related matters, shareholders holding their shares directly in the Company are advised to contact the Registrars (see Corporate Information). Changes of address must be notified to the Registrars in writing.

Any general queries about the Company should be directed to the Company Secretary in writing (see Corporate Information) or by email to: **CEF.CoSec@abrdn.com.**

For questions about an investment held through the abrdn Investment Plan for Children, Investment Trust Share Plan or Investment Trust Stocks and Shares ISA, please telephone the Manager's Customer Services Department on **0808 500 0040**, email **inv.trusts@abrdn.com** or write to abrdn Investment Trusts, PO Box 11020, Chelmsford Essex CM99 2DB.

Dividend Tax Allowance

The annual tax-free personal allowance for dividend income for UK investors is £2,000 for the 2021/22 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 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.

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 the abrdn Investment Plan for Children, or Investment Trusts ISA, or through the many stockbroker platforms which offer the opportunity to acquire shares in investment companies.

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 only pay Government Stamp Duty (currently 0.5%) on entry 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 abrdn in writing at any time.

Investor Information

Continued

abrdn Share Plan

abrdn operates 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 only pay Government Stamp Duty (currently 0.5%) on entry where applicable. 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 Trusts ISA

abrdn operates an Investment Trusts ISA ("ISA") through which an investment may be made of up to £20,000 in the 2021/22 tax year.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, 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 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.

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.

Nominee Accounts and Voting Rights

All investments in the abrdn Investment Plan for Children, Share Plan and Investment Trusts ISA are held in nominee accounts and investors are provided with the equivalent of full voting and other rights of share ownership.

Keeping You Informed

Further information about the Company may be found on its dedicated website:
abrdnuksmallercompaniesgrowthtrust.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.

Details are also available at: **invtrusts.co.uk.**

Twitter:

@abrdnTrusts

LinkedIn:

abrdn Investment Trusts

Key Information Document ("KID")

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

Literature Request Service

For literature and application forms for abrdn Investment Trusts' products, please contact us through: **invtrusts.co.uk**, telephone the Manager's Customer Services Department on **0808 500 4000** or write to abrdn Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

Terms and Conditions

Terms and conditions for abrdn managed savings products can also be found under the Literature section of the Manager's website at: **invtrusts.co.uk.**

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 long-term capital growth by investment in UK-quoted smaller companies, 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 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 Financial Conduct Authority's restrictions which apply to NMPIs because they are securities issued by an investment trust.

Online Dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company. 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.

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 and 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 at: **fca.org.uk/firms/financial-services-register**

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 trust shares purchased will immediately be reduced by the difference between the buying and selling prices of the shares, known as 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 29 to 31 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 Financial Conduct Authority in the United Kingdom.

Corporate Information

Directors
Liz Airey (Chairman)
Ashton Bradbury
Alexa Henderson
Caroline Ramsay
Tim Scholefield

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

Alternative Investment Fund Manager
Aberdeen Standard Fund Managers Limited
1 George Street
Edinburgh EH2 2LL

Investment Manager
abrdn Investment Management Limited
1 George Street
Edinburgh EH2 2LL

abrdn Customer Services Department, Investment Plan for Children, Share Plan and ISA enquiries
abrdn Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB

Freephone: **0808 500 0040**
(open Monday to Friday, 9.00 a.m. to 5.00 p.m., excluding public holidays in England and Wales)

Email: **inv.trusts@abrdn.com**

Company Registration Number
SC145455 (Scotland)

Website
abrdnuksmallercompaniesgrowthtrust.co.uk

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Telephone: **0370 889 4076**
Fax: **0370 703 6101**
Website: **investorcentre.co.uk**

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

Stockbroker
Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Solicitors
Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Independent Auditor
KPMG LLP
319 St. Vincent Street
Glasgow G2 5AS

Legal Entity Identifier ("LEI")
213800UUKA68SHSJBE37

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FSC www.fsc.org

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

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