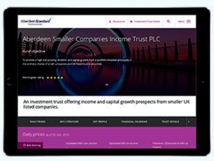
Aberdeen Standard Investments

Aberdeen Smaller Companies Income Trust PLC

Hunting smaller companies for a stronger income

Annual Report
31 December 2020

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary shares in Aberdeen Smaller Companies Income Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



Visit our Website

To find out more about Aberdeen Smaller Companies Income Trust PLC, please visit: **aberdeensmallercompanies.co.uk**

Contents

"In what has been an extremely challenging year, your Company has delivered solid performance against its benchmark"

Robert Lister, Chairman

"2020 saw a resilient period of performance from the Trust in this highly unusual year. We remained committed to our long term focus on quality growth businesses, confident that companies with strong balance sheets and management teams would ride out the uncertain periods."

Abby Glennie,
Aberdeen Asset Managers Limited

Highlights and Financial Calendar

Net asset value total return[A]
2020:
–4.1%
2019: +34.4%

Composite Index[B]
2020:
–4.3%
2019: +17.7%

Share price total return[A]
2020:
–5.1%
2019: +57.7%

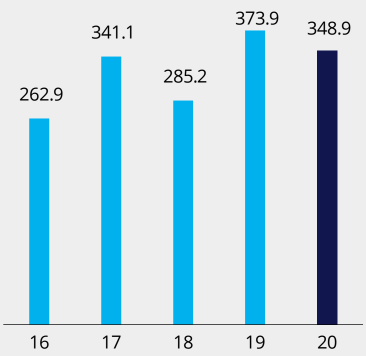
Earnings per Ordinary share (revenue)
2020:
5.60p
2019: 9.98p

Dividend per share
2020:
8.24p
2019: 8.25p

Discount to net asset value[A]
2020:
10.3%
2019: 8.3%

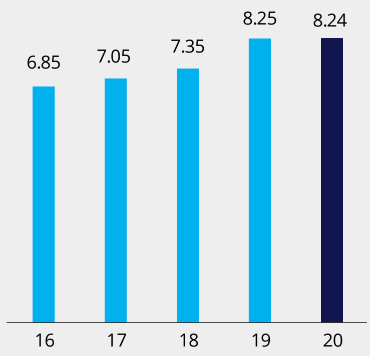
[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 82 and 83.
[B] 2020 – Numis Smaller Companies ex Inv Trust Index; 2019 – FTSE Small Cap ex Inv Trust Index.

Net Asset Value per Ordinary share



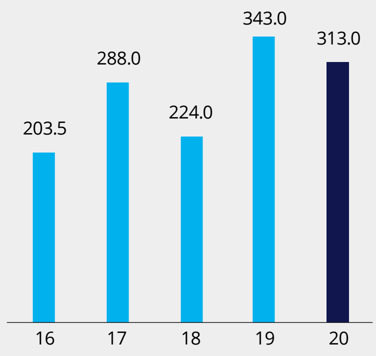
At 31 December – pence

Dividend per Ordinary share



Year ended 31 December – pence

Share price per Ordinary share



At 31 December – pence

Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	2.06p	2 April 2020	3 April 2020	24 April 2020
Second interim dividend	2.06p	2 July 2020	3 July 2020	24 July 2020
Third interim dividend	2.06p	8 October 2020	9 October 2020	30 October 2020
Fourth interim dividend	2.06p	31 December 2020	4 January 2021	29 January 2021
2020	**8.24p**			
First interim dividend	1.95p	4 April 2019	5 April 2019	26 April 2019
Second interim dividend	1.95p	4 July 2019	5 July 2019	26 July 2019
Third interim dividend	1.95p	3 October 2019	4 October 2019	25 October 2019
Fourth interim dividend	2.40p	2 January 2020	3 January 2020	24 January 2020
2019	**8.25p**			

"The Board considers the generation of income for our Shareholders to be a key purpose of the Company, and with the use of its revenue reserves, which have been built up in recent years, the Company has kept the dividend at similar levels to 2019."

Robert Lister, Chairman

Financial Calendar

Payment dates of quarterly dividends	January 2021 April 2021 July 2021 October 2021
Financial year end	31 December 2020
Annual General Meeting	28 April 2021

Highlights

	31 December 2020	31 December 2019	% change
Total investments	£82,454,000	£88,808,000	–7.2
Shareholders' funds	£77,144,000	£82,660,000	–6.7
Market capitalisation	£69,204,000	£75,836,000	–8.7
Net asset value per Ordinary share	348.91p	373.86p	–6.7
Share price (mid market)	313.00p	343.00p	–8.7
Discount to net asset value per Ordinary share[A]	10.3%	8.3%	
Net gearing[A]	7.0%	7.5%	
Ongoing charges ratio[A]	1.35%	1.40%	
Dividends and earnings			
Earnings per Ordinary share (revenue)[B]	5.60p	9.98p	–43.9
Dividends per Ordinary share[C]	8.24p	8.25p	–0.1
Dividend cover[A]	0.68	1.21	–43.8
Revenue reserves[D]	£2,937,000	£3,595,000	–18.3

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 82 and 83.
[B] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[C] The figures for dividends per share reflect the years in which they were earned (see note 8 on page 72).
[D] The revenue reserve figure does not take account of the fourth interim dividend amounting to £455,000 (2019 – £531,000).

Games workshop (trading as Warhammer) is a unique vertically integrated manufacturer and producer of miniature models, novels & audiobooks, board games and paints. The business was founded in 1975, effectively creating the table top gaming market. In the subsequent 35 years it has moved from being a small UK business to a global player. Table top gaming continues to be a niche hobby, but is now complementary to computer games and, more recently, social media and online videos. The ownership and development of the IP enables the company to generate royalty income across a range of mediums

Strategic Report

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

Chairman's Statement

"The Company's 3 and 5 year NAV performance against the benchmark remains strong, returning+10.1% and +58.3% respectively, versus composite benchmark returns of -2.9% and +26.3%."

Robert Lister, Chairman

Performance

In what has been an extremely challenging year, your Company has delivered solid performance against its benchmark, the Numis Smaller Companies ex Investment Trusts index, with the Company's NAV returning -4.1% versus a benchmark return of -4.3%. Share price performance was slightly behind the benchmark with a return of -5.1% over the year.

The Company's 3 and 5 year NAV performance against the benchmark remains strong, returning +10.1% and +58.3% respectively, versus composite benchmark returns of -2.9% and +26.3%.

This is the first full year in which the Company's performance has been measured against its new benchmark, which came into effect on 1 January 2020, changing from the FTSE Small Cap (excl. investment trusts) index to the Numis Smaller Companies (excl investment trusts) index. Performance over 3 and 5 year periods is measured against a composite of both indices.

Dividend

The Company's revenue return over the period has decreased for the year ending 31 December 2020 to 5.60p (2019: 9.98p). This reflects the impact of widespread dividend cuts and cancellations seen across the equity market: more details on this can be found in the Manager's report.

However, as the Board considers the generation of income for our Shareholders to be a key purpose of the Company, and with the use of its revenue reserves, which have been built up in recent years, the Company has kept the dividend at similar levels to 2019 with the total dividend for the year being 8.24p (2019: 8.25p). With the year-end share price at 313p, this gives a dividend yield of 2.6%. Over 3 and 5 years, the dividend has increased by 16.9% and 23.9% respectively compared to rises in CPI of 4.6% and 9.8%.

The revenue reserve account, which will represent 11.2p per share following payment of the fourth interim dividend, continues to provide the Company with some flexibility in future years, should we encounter further challenges to income.

Ongoing Charges

The Company's ongoing charges continue to be an area of focus for the Board. The Company's ongoing charges figure was 1.35% to the end of December 2020, compared to 1.40% to the end of December 2019.

Discount

The Company's discount before the start of the pandemic had narrowed quite significantly, and we did see the Company's share price move to a small premium momentarily. Market volatility, however, increased substantially during the course of March 2020 which saw a widening of the discount to 28%. The discount has made a considerable recovery, in what has been a very unsettled year, and finished the year at 10.3% (2019: 8.3%).

Investee Company Stewardship

The Manager has continued to engage with the Company's investee companies on a virtual basis during the year, and the Board is pleased to report that the Manager has seen enhanced levels of engagement despite this new way of working. The Manager's report on pages 9 provides some examples and further details.

Gearing/Debt

The Company continues to utilise part of its £10 million credit facility, £5 million of which is fixed rate and £5 million is floating rate. At the year end £7 million of the facility was being utilised. The facility has staggered maturity terms for its fixed and floating rate elements, with the floating rate facility being drawn to 2021 and the fixed rate facility to 2023.

As the Company's floating rate facility expires in April this year, the Company will be seeking terms for its renewal during the course of the first quarter of 2021.

The Company's net gearing position as at 31 December 2020 was 7.0%, compared to 7.5% at the end of 2019.

Board Composition

The Board continually reviews its composition and considers its succession and refreshment policies. The succession plan has taken longer than anticipated due to the restrictions put in place as a result of the Covid-19 pandemic. The Board is currently undergoing a search for two new Board appointments during the course of 2021 in anticipation of the retirement of Barry Rose later in 2021 and myself at the AGM in 2022. Barry Rose has kindly agreed to remain on the Board until the recruitment process is complete.

Environmental, Social and Corporate Governance ("ESG")

The Board monitors the Manager's activities to ensure that appropriate and robust ESG principles are being followed. As part of its investment management process, the Manager embeds ESG considerations into its research and analysis of investee companies. Further details of the Manager's ESG engagement can be found on pages 17 to 19.

Chairman's Statement Continued

ESG continues to be an important area of focus and we were pleased to see a dedicated ESG analyst join ASI's Smaller Companies Team last year.

Manager

In November 2020, the Board announced that Amanda Yeaman would be joining Abby Glennie as co-Manager of the Company's portfolio. Amanda has been supporting Abby in the management of the Company for some time and we were delighted to welcome her as co-Manager more formally. Together, they continue to manage the portfolio in alignment with their Quality Growth Momentum process with an income bias. Amanda's biography can be found on page 85 of the report.

Annual General Meeting

The Company's Annual General Meeting has been scheduled for Wednesday 28 April at 9.00 am to be held at the offices of Aberdeen Standard Investments, 1 Bread Street, London. As you will be aware, attendance at last year's AGM was restricted to the minimum requirements in order to adhere to Government guidelines in place at that time.

As at the date of this report, restrictions on gatherings and social distancing measures are in place and, given the ongoing uncertainty and visibility on the level of Government guidelines at the end of April, the Board has reluctantly decided to proceed with this year's AGM by limiting attendance again to the minimum quorum requirements. In the unlikely event of the situation changing, the Company will update shareholders through an announcement to the London Stock Exchange and on the Company's website and we therefore encourage shareholders to check for such updates.

The Board strongly advises that no shareholders should attend the AGM in person and instead exercise their votes in respect of the meeting in advance, by completing and returning their proxy forms. This will ensure that their votes are registered. Shareholders are also invited to address any questions to the company secretary via email to aberdeen.smaller@aberdeenstandard.com.

The Board is aware that many shareholders welcome the views of the Manager and perhaps particularly this year, given the uncertainties that lie ahead for the UK economy and markets. Accordingly a presentation from the Manager, which would have normally have been delivered at the AGM, will be made available for shareholders on the Company's website.

Amendment to the Articles of Association

Shareholders will note that one of the resolutions being proposed at this AGM is an amendment to the Company's Articles of Association to allow for virtual/hybrid meetings to be held and conducted in a manner that allows those not present to attend, speak and vote at meetings by electronic methods.

While the Board does not intend to hold meetings in this way going forward, it will allow the Company to utilise this option, where a physical meeting would not be in the best interests of shareholder safety. It is important to note that this new provision does not prevent the Company from holding physical meetings, which is its preferred option.

Outlook

Markets continue to be uncertain. Your Manager has steered the Company through these turbulent times well and will continue to follow its investment process, which has proved resilient through various economic cycles. Despite political and economic uncertainty, the investment process and focus on stock selection continues to guide the Manager towards a portfolio of quality growth businesses, which can prove resilient in a variety of environments.

Robert Lister,
Chairman
10 March 2021

Investment Manager's Review

Abby Glennie,
Aberdeen Asset
Managers Limited

Overview

2020 saw a resilient period of performance from the Trust in this highly unusual year. We continued to use the Matrix, our in-house stock screening tool, as a core part of our investment process. The longer term factors in the Matrix, as well as the quality aspects, enhanced our ability to identify growth businesses which with their many levers for growth, strong product and service propositions, international angles and barriers to entry, exhibited the ability to grow even in tough market environments. In many cases the strong got stronger and gained market share. We did not panic out of names, or aggressively turnover the portfolio, but remained committed to our long term focus on quality growth businesses, confident that companies with strong balance sheets and management teams would ride out the uncertain periods.

This investment process of Quality Growth Momentum with an income support performed well over a volatile 2020, outperforming our benchmark.

Dividends have been the collateral damage in this crisis. Dividends from UK plcs fell by 44% to £61.9bn for 2020, the lowest annual total since 2011, and the first time since 2015 that distributions have not grown year-on-year according to Link Group dividend monitor. Dividends in our benchmark, the Numis Smaller Companies Index ex investment trusts, fell by 52%. Given this backdrop, we were particularly pleased to see the strength of dividend income across the portfolio that we did throughout the year.

Driven by Covid-19 and lockdowns, many companies withdrew guidance and most UK companies in all sectors regardless of current trading who normally paid dividends looked to conserve cash by cancelling or delaying pay outs. Dividend cuts were also frequently a prelude to issuing additional equity as part of a bigger refinancing exercise. In the aftermath of the financial crisis, just two fifths of companies cut or cancelled pay outs. This time the majority cancelled immediately and a smaller proportion reduced the pay-out. Not surprisingly discretionary special dividends had disappeared. This is obviously an issue for any income focused portfolio.

As we got more visibility towards the end of Q2, when companies began to re-instate guidance, it became clearer which companies were more resilient. We were fortunate that the quality dynamic of our investment process meant that we have exposure to a strong contingent of companies who continued to pay dividends throughout the pandemic or reinstate them upon board approval. Some names in the portfolio increased the dividend.

Link Group dividend monitor further cautions that it could take until 2026 for UK dividends to return to their 2019 level. We expect the Company to do better than this with a faster recovery to the previous year's income levels. In addition, given the strong revenue reserves of the Company, we are therefore pleased that in a tough environment for income, we have been able to pay a dividend to shareholders at broadly the same level as the previous year and feel well positioned to provide a supportive income stream for our shareholders.

2020 has been the catalyst for ESG trends to gain critical mass. ESG is embedded in our process, through our fundamental ESG research, our engagement with management teams, and our use of external ESG data. Strong ESG credentials are a core part of our Quality analysis, and our lower risk approach to investing in smaller companies. When making ESG considerations we are looking at both the risks and the opportunities those factors provide. We've been pleased with how our investee companies have striven to protect the morale and mental health of their workforce, with online support to keep people engaged, training and development resources, and helping their colleagues be ready and able to return to work. The sense of employee loyalty generated has been impressive, which bodes well for cultural strength and staff longevity. This is the behaviour of management teams incentivised for the long term.

Performance

In the half year to the end of June 2020 the Company's portfolio returned -15.1% versus the benchmark return of -25.0% which was a pleasing performance across two very different quarters. Through the period, and particularly in March where the harshest market impacts were felt, the Company held up very well on a relative basis. For the second half of the year we gave up some of the performance gained in the earlier period, as our style was out of favour given the value rally late in the year. The portfolio's return for the year was -2.4% compared to a benchmark return of -4.3%, an outperformance of +1.9%.

Investment Manager's Review Continued

The Company's Net Asset Value (NAV) total return for the financial year was -4.1%. Long term performance also remains very favourable over 3 and 5 year time periods, with 3 year NAV growth of +10.1% versus the benchmark of -2.9%, and 5 year NAV growth of 58.3% versus the benchmark of +26.3%.

Having paid a broadly flat dividend for the year, we are pleased to report a dividend yield of 2.63%; higher than our benchmark which yielded 1.58%.

The UK market, and even more so at the small end, contains a wide and diverse range of companies. Through our bottom up stock selection focus we identify businesses which have Quality, Growth and Momentum characteristics, with an income balance. We do not look to take macroeconomic calls or time the cycle, but focus on identifying businesses which we believe have the levers and ability to grow in a sustainable manner, despite external distractions the economy might experience. In difficult market environments and times when economic growth slows, quality is a characteristic we believe comes into even more focus. Quality businesses, with healthy balance sheets, management teams with a strong pedigree, good corporate governance and strong competitive positions, have the ability to be resilient through more difficult periods, and even improve their positioning when peers may be struggling. We look to identify businesses which have many angles to their growth opportunities, giving them a greater ability to continue growth, whether it be through areas like complementary products and services, new geographies, or investment funded by the strength of their quality balance sheets.

Equity Portfolio

Stock selection was a significant contributor to the outperformance of the Trust over 2020. We made no significant style changes throughout the pandemic, nor did we turnover the portfolio. We continued to follow our process. It was pleasing to see that the contributors in Q1 remained so for the financial year reflecting our process to select quality names that can grow in all environments. We did not gain outperformance by owning names that were deemed simply to be lockdown winners, rather because we have exposure to high quality names in all sectors who could provide resilience and growth, and who we had held prior to Covid-19 for their fundamental attractions to our investment process. Many companies across the portfolio generated earnings for the year higher than initially expected by the market. These earnings upgrades were well rewarded with share price performance.

Games Workshop has been a consistent positive contributor to performance throughout the year, trading well despite Covid-19 disruption. The business has shown strong growth in recent years as the adoption of its table top gaming hobby has been enhanced through innovation and development, whilst social media has improved customer recruitment. The hobby is now fairly mature in the UK, but is in development stage in many other parts of the world where Games Workshop are experiencing strong growth.

The vertically integrated business is rich with IP and exclusive product. Management have made many operational improvements in recent years, sharpening price points and innovating with new high quality products. An increased marketing drive, together with better customer interactions through social media, has resonated with existing customers, attracted new ones and reactivated lapsed ones.

Following the government announcement of full lockdown restrictions, all stores, factories and workshops were closed. Trading short term was impacted, but management made the necessary changes in their warehouses to meet social distancing requirements and began to make trades sales across Europe and America. Online orders restarted in May, with stores following depending on local government guidelines. Although the business effectively stopped trading for a period the appetite for at home entertainment accelerated in lockdown and management were successful in driving their online presence and hobby engagement to drive the number of active users. Product marketing has become far slicker and more compulsive, both in terms of the product itself and the marketing. Management innovated with virtual vouchers to offer attractive discounts and to explore new areas of the product range, and flexed delivery options. Games Workshop issued a number of stronger than expected updates during the year, partly reflecting pent up demand but also from the strong product line up in the period and a greater proportion of sales through trade and online. Upon reopening operations around May, the business momentum returned to the strong pathway seen pre-Covid, and even strengthened. There was also news of a further licencing agreement, with Frontier Developments for a real time strategy game based on Warhammer Age of Sigmar. The shares again reacted well, as this further demonstrated the broadening of IP monetisation, with license revenue streams being very high margin. Supported by the strong trading performance, the Board has declared dividends similar in quantum from prior years, but the timing of payments was slightly different.

We are confident that the quality of the business and the top line growth opportunity will continue to support upgrades, with product innovation, international growth and license deals all improving. We expect the business to continue to deliver robust earnings growth in coming years which in turn will drive dividend growth.

XP Power (XPP) is a manufacturer and supplier of power converters to the Industrial, Semiconductor, Technology and Healthcare markets. Their core AC-DC product converts alternating current from the mains to direct current, this is required for virtually all electrical equipment. The market had worried XPP would see a sharp fall in revenue and profits given the supply chain disruptions and potential facility closures. There was some conciliation in April when XPP released a strong trading update demonstrating they were more resilient than the market feared, as demand for their products remained robust. Given the critical nature of some of their customer's products, they were able to continue to manufacture throughout the crisis, and did so operationally well despite some supply chain uncertainties. The healthcare division saw unprecedented demand and the recovery in semiconductor continued. Following others in the sector, XP cautioned on the outlook at this stage and withdrew the final dividend. We had more good news at the interims in August showing sales growth was sustained and order momentum strong, allowing them to end the period with a record order book. The dividend was reinstated at this stage reflecting management confidence. We saw another upgrade in October confirming that they were capitalising on a much larger opportunity as the strength of order wins continued. The cash performance continued to impress with net debt reducing. This balance sheet strength, along with the availability of liquidity, underpinned the proposed Q3 dividend. The strong trading performance illustrates the benefit of diversity of end markets and the mitigation of the cyclicality of individual end markets. It was also announced that long-standing CEO Duncan Penny will retire and will be succeeded by current CFO Gavin Griggs. We see the change as evolutionary, and do not foresee any major change to the strategy, which is serving the group well.

We saw a strong contribution **from Liontrust Asset Management.** This year they have delivered extremely strong flows, supported by fund performance over the long term. Liontrust is demonstrating that they are taking share from peers that lack the focus, brand, and investment performance they demonstrate. Fund investors do want active management and are willing to pay for it where they believe value is being added. Liontrust has an expanded range of funds which appeal to investors and is delivering the benefits of consistently applied investment processes with strong monthly flows. During the second half of the year we had an update from the company showing extremely resilient inflows despite the expected Covid-19 AUM hit from markets. The net inflows achieved in an extremely difficult quarter show the resilience of the business and the quality of the product offering, brand and distribution. The Sustainable Investments and Economic Advantage teams saw high levels of net inflows and investment performance remains top quartile for a majority of their funds over 1, 3 and 5 years. The shares reacted positively to the continued momentum in flows and the payment of the dividend, as well as the acquisition of Architas, a multi manager business which further diversifies Liontrust and expands their addressable market.

Hollywood Bowl detracted from performance in the period. This business had traded consistently well before the pandemic thanks to their strategy of constantly investing in the customer proposition. However, bowling was included in the category of 'close proximity' venues which lead to protracted periods of closure. The business remained profitable in FY20, managing costs down, preserving cash and bolstering its balance sheet with a capital raise, which we supported. Demand has proved resilient in the short periods in which they were allowed to open and the business adaptable, remaining profitable even under restrictive trading conditions. Importantly, its strategy remains intact with innovation, refurbishment and expansion expected to drive top line and margin growth. Through investment in PuttStars, a mini golf experience, they have also broadened their addressable market, and given the confidence gained during the short trading periods this year they are rolling out more sites. While the shares rallied towards the end of the year upon news of the vaccine, sentiment worsened upon the news of lockdown 2, in early November.

Cineworld was a detractor from performance given the weak news flow around cinema attendance numbers particularly in the US early in 2020. We'd already been reducing this position in 2019, and were concerned that lower revenue growth would slow the de-levering of the balance sheet and therefore exited the holding early in 2020 on quality and growth concerns.

James Fisher is a leading provider of specialised services to the marine, renewable energy, oil and gas and other high assurance industries. The group has compounded high levels of growth over long periods of time, but over their FY19 the business was impacted by some challenges in its largest division, Marine Support, and by Covid-19. Initially the market believed the business to be later cycle so less correlated with the oil price and so more resilient and early in the year management felt confident to pay a dividend. Then upon re-instating guidance the full impact of Covid-19 and the related fall in oil prices and oil industry profitability impacted both the non-carbon and carbon fuel parts of the business. Subsequently, because of concerns that the balance sheet might be stretched, the shares didn't recover with the oil price. The business is broad and rarely do all cylinders fire simultaneously, but its industry leading position in a number of structural growth markets is likely to keep the growth

Investment Manager's Review Continued

engine running for many years. We see upside potential to forecasts from a steeper recovery in the oil price and oil industry profitability than assumed, causing demand to normalise in the Marine Support division and continue its improvement in the Offshore Oil division. We also believe the new CEO will reinvigorate the business, both through the focus on top line growth as well as ensuring the cost base is efficient.

Portfolio activity

We added new holdings in Target Healthcare, Primary Health Properties, Safestore, Greggs, Halfords, Bytes, Tatton, Gateley, Dunelm, Polar Capital, Impax Asset Management, RWS, Severfield and Stock Spirits.

We exited Cineworld, Burford Capital, Hiscox, Fuller Smith and Turner, Hansteen , Big Yellow, Paypoint, Abcam, Savills and Greggs.

The turnover of the portfolio in 2020 was approximately 27%, broadly in line with 2019 levels. We are long term investors, looking at investment cases on a 3 to 5 year time horizon in general which is in alignment with a 25% turnover. The resource of the small cap team has been enhanced over the last 18 months which has helped to create strong new idea generation, and we have been pleased to have been able to add many new holdings to the portfolio. Whilst Covid-19 created a lot of volatility, we felt very comfortable with the shape of the portfolio and did not have to overly trade the fund to ride through the uncertainty of 2020; our Quality aspects of the portfolio as well as companies more in charge of their own destiny through growth levers, was key to our portfolio resilience.

Stock Spirits Stock Spirits is one of the largest manufacturers and distributors of spirits and liqueurs in Central and Eastern Europe, specialising in vodka, bitters, rum and brandy. It is market leader in the Czech Republic and number two in Poland. The business has the number one or two position in two of the three countries it operates in and has been a beneficiary of changing competitive dynamics and the business should benefit from a favourable pricing environment in a progressively duopolistic market.

In 2018 they made significant changes to the board and senior management and refocused the core strategy on generating growth through value rather than volume. This involved focusing on new product development to move the current portfolio to a more premium offering, both organically and through M&A. The business is adopting digital tools to be closer to their consumer's tastes and trends. The group's performance throughout the pandemic highlights the resilience of the model. On the back of very strong cash conversion and low leverage of 0.3x, the board recommended both a final dividend and a special dividend.

Severfield is the UK's market leading structural steel company, the home of world class engineering and design excellence. With a unique product and services offering, they are leaders in their space. Severfield's strong market position and breadth of end market coverage has been a key element of their resilience this year, with exposure to a number of end markets driving diversification benefits. The management team has successfully managed the group through a series of challenges. The market position is strong, as is the order book and pipeline of opportunities, with many long projects driving revenue visibility. The group has good cash flow characteristics and a strong balance sheet to support their ability to invest, and there is a sector-leading 4.3% dividend yield.

RWS are a specialist services provider with a focus on expert translation in areas such as Life Sciences, IP services (patents), and Localisation (big tech names). Over a number of years they've delivered strong earnings growth, and the diversification of the business gained through investment and acquisitions helps reduce the cyclicality. The Chairman has been instrumental in the development of RWS over the last 17 years. They recently acquired SDL, a UK listed translation business with strong machine translation tools, which they can embed across the business. RWS is an attractive growth business, but did see some disruption impact from Covid-19 decision making and lower activity. They also have a good track record of margin improvement, with good cost control. There are also strong cost synergies to come from the SDL deal, as technology is embedded across the group, and RWS improve the underlying SDL margin. The strong earnings growth we expect from RWS will be supportive of good dividend growth. They maintained the dividend through the Covid-19 period as opposed to increased it but due to their Sept year end the first dividend they had to pay was the interim in June as opposed to many other businesses who withdrew their final dividend in April.

Impax Asset Management is a specialist asset manager with a long track record of excellent performance in the ESG and sustainability space. The management team, headed by the founder of the business, built a platform that is of institutional quality both in terms of process and scalability. Flows have been very strong and they will distribute more cash with scale. The long track record of investing in the ESG space brings strong credibility in the market, and continues to attract clients to their funds. The dividend policy is to pay out 55-80% of earnings and they paid dividends throughout the year given their excellent fund performance and AUM growth.

Target Healthcare REIT, is a property company, focused on the care home industry. They own the assets, but they are not operators so have no operating risk themselves. The market fundamentals are robust with an ageing population and care burden. 55% of their occupancy is private pay, and 45% public pay. The dividend is fully covered with a 6.5% dividend yield and we expect growth of low single digit percentage. Target properties were well advanced in the vaccination programme; by mid January, the vaccination coverage was 86% of homes, with the remaining 14% expected to commence by the end of the month. This is excellent news for residents, operators and Target; visibility on easing of visitation helping support underlying occupancy. Target operators did a very strong job of ensuring infection rates were low within the homes, peaking at just 3.2%. Whilst Target do not operate the homes, it is important that the operators are maintaining high standards and also operating in a profitable manner. During the year they supported operators as a landlord, easing working capital requirements by helping to source PPE, as well as moving some operators to monthly payment plans. The pandemic has magnified the risks of low quality care home assets where infections have spread widely. This puts Target assets in a strong competitive position in the market. Rent collection has been largely unaffected this year. The dividend remained paid, and will be fully covered in FY22, with likely dividend growth low single digit per year. 94% of leases in the portfolio are RPI linked, with the majority having caps and collars on average of 2-4%, which also provides downside protection in a low inflation environment. Having extended the maturity and size of their debt facilities, this allows the business to acquire further high quality assets, in this structurally growing care home market.

Primary Health Properties (PHP) invests in modern facilities that enable the delivery of primary care, easing the burden of national health requirements on hospitals. The NHS has made this approach central to its policy creating a stable operating environment with steady demand and growing interest from both occupiers and investors. PHP's income focus is underpinned by a strong covenant, with the UK government (NHS) indirectly funding 90% of rental income. PHP has demonstrated resilient rent collection. The income stream is one of most defensive in property, 90% rent backed by the government, with average lease length of 13 years. PHP has increased its dividend every year since its 1996 IPO and has a progressive dividend policy. The balance sheet remains strong, and it has a 4% div yield. In December, PHP announced its intention to internalise its management structure through the acquisition of Nexus, its external advisor. We are supportive of this, with a view the business will be in a stronger position with in-house management, securing the strong management team and aligning them with shareholders. The cost saving of doing so also drove earnings upgrades as well as a 5% increase in the dividend forecasts. Since IPO in 1996, PHP has increased its dividend in every year and generated a total shareholder return of 14% pa. The transaction also brought direct development opportunities into the portfolio which should further enhance returns going forward. Covid-19 has increased pressure on the NHS to provide more care outside of hospitals and in the primary arena, which is a positive for the investment case. It has also highlighted the degree of obsolete older GP surgery stock, to which PHP do not have exposure.

Tatton Asset Management is a founder run Discretionary Fund Management business and is an independent challenger low cost model with very good investment performance. The offer addresses the market and regulator's concerns about fee levels and transparency, through its simple and competitive fee structure. With a capital light model, and clear opportunity to grow revenues we believe the 19% forecast earnings growth rate is likely to be driven further upwards giving confidence in the forecast growing dividend. We were pleased to see Tatton continue to pay dividends this year.

We added a new position in **Gateley,** the law firm**.** Recognising that the traditional broad base partner profit share models don't function effectively, Gateley was the first law firm to IPO and convert to a salary structure in 2015. The business is well diversified in service line and location. We like the quality characteristics of this capital light, high ROCE business with a track record of delivery. Gateley delivered a resilient first half in the face of Covid-19 disruption aided by the group's breadth and diversification across cyclical and counter-cyclical legal and consultancy services. Upon addition to the portfolio the expected dividend yield was 4% with a policy to pay out 70% of earnings. Cash generation remains strong and the board intends to reinstate dividends once the FY21E outcome is known, being one of the names who stepped back from dividends in 2020 due to the uncertain environment.

Dunelm is a UK market leader in homewares, with a strong and improving brand. The new management team has driven enhancement, with the well invested digital platform driving active customers and increasing the group's addressable market. As shopping habits shift, Dunelm is accelerating its market share gains, growing margins and increasing cash returns to shareholders. The business continues to take share of a buoyant homewares market both in store and online. Its strong digital proposition led to a strong performance this year, despite the challenges of instore retailing given Covid-19 restrictions. Margin

Investment Manager's Review Continued

progress helped deliver strong growth in profits and cash, giving management the confidence to repay furlough benefits, allowing them to re instate dividends and we believe there is the potential to pay a special dividend next year.

Polar Capital is well positioned as a manager of specialist and thematic funds, which we believe plays well to the industry direction of travel which should be supportive of long term earnings growth. The dividend is secure, given the strength of the balance sheet, the dividend being well covered by earnings and a precedent for maintaining the dividend historically. Polar provides a 5% yield, with longer term dividend growth potential. While we understand that part and parcel of being a specialist manager means there will be periods of strong flows and periods of weaker flows, we believe the business is capable of sustaining the improving net flows over the long term given their breadth of product and long term track record of the portfolios. The addition of new funds helps to diversify the business, reducing those risks.

We added a new position in **Halfords** a business we believe is undergoing positive change which should improve both the quality and the growth of the business going forwards. Halfords is the UK's leading retailer of motoring, cycling and leisure products and services and has brand strength. Investment over the past few years has focused on stabilising margins, investing for growth, investing in the online platform. We have been impressed with the current CEO and CFO. In particular there is much tighter control on financials, the supply chain, and on the future returns potential. The business under a new management team are investing in areas which should position them in a stronger competitive position, and capture structural growth. We believe the cash generation and strong balance sheet allows them strong dividend payer in future, whilst still being able to invest in the business.

We participated in the IPO of **Bytes.** Bytes is a value added reseller in the UK technology market, selling to both public and private enterprises. Bytes have a strong track record of sales and profit growth, as well as cash generation. They traded well through the uncertain environment of Covid. They have a net cash balance sheet, and will have a well-founded ability to pay dividends. They expect to pay out 40-50% of adjusted net income as dividends. Forecasts are for high single digit profit growth over the next few years and we believe these forecasts can be upgraded over time.

We started a new position in **Greggs** at the beginning of the year having gained confidence in the momentum in like for like sales growth, as the excellent management team re-engineered the offer and re invigorated the brand. The Coronavirus crisis has been a real challenge for Greggs given the impact on footfall in many locations, and we expect it will take some years to rebuild to pre-Covid-19 earnings. While we have confidence in the ability of the management to rebuild and realign the business in the coming years, the depleted balance sheet makes the holding hard to retain in an income focused portfolio where we have uncertainty about when and to what extent dividends will return, so we exited the holding towards the end of the year as viewed the investment case as having changed.

We switched our exposure within self-storage out of **Big Yellow,** into **Safestore.** Whilst on the face of it the businesses are very similar, we were more optimistic about the earnings outlook for Safestore, with a more geographically diverse exposure within the UK and also France. Safestore management are also more likely to do acquisitions, which we would expect to be earnings accretive. Safestore continued to pay dividends, and the dividend increased by 6% over the previous year.

We exited the small residual in **Robert Walters,** with a view that lower economic growth globally would be a challenging environment for recruitment firms. We also exited the small residual holding in **Cineworld,** with potential closures looking increasingly likely due to the impact of Covid-19 with sites having already limited capacity. Cash generation was becoming increasingly challenged, making the balance sheet looks tougher, and the dividend less likely to be paid.

We have exited the holding in **Burford.** Following the short report by Muddy Waters, we were pleased with many of the actions taken by management; however, given the black box nature of the business we felt it was challenging for the company to provide evidence to put all the concerns to bed. Given our lower risk investment process, and this being a low contributor to income, the holding was exited.

We exited **Paypoint,** the retail consumer services business exposed to small retail locations, following the release of a "statement of objections' from Ofgem, alleging that the company breached competition law since the business held a dominant position in the market for over-the-counter payment services for prepayment energy customers. While at this stage of the investigation, Ofgem's findings are provisional and are without conclusion, there was potential for a fine and the removal of exclusive contracts. While the size of the fine is unknown and unlikely not to be crippling, the uncertainty will be a drag on the shares. Furthermore, we also had concerns around the momentum in the parcel business, working from home meaning fewer people will have the need to direct parcels to their shops.

We had governance concerns around the appointment of Chairman as CEO, after the former CEO stepped down due to ill health.

We also exited the holding in **Hiscox,** where there had been a tough environment for large loss events, and the company was screening poorly on the Matrix. We also exited the small holdings in **Fuller Smith and Turner, Savills** and **Hansteen** (having been bid for) and **Abcam** on less conviction in potential for increased dividends going forward.

Fixed Income portfolio

The modest exposure to fixed income was previously focused on investment grade issuers in the UK utilities sector which is typically a safe haven. The focus is on generating income and avoiding significant capital volatility with this component. That being said, volatility in the first quarter led to some positions being added to the Company's portfolio. Holdings were added in Heathrow Airport, Close Brothers and HSBC with some attractive yields on offer. Heathrow, the UK's largest airport, is understandably suffering some challenging conditions and operating well below capacity. It does, however, have a strong liquidity position and relatively low leverage. The HSBC senior holding company bonds were purchased at a spread of 211 basis points above similar maturity government bonds and are now over 100 basis points tighter, reflecting the improving market. The very short dated Close Brothers bonds were added at a yield to maturity of over 2.2% and redeem in the second quarter of 2021.

Fixed income markets no longer offer yields that are extremely attractive. It is likely that, in the current challenging environment, some volatility will emerge and given that, we would expect to once again take advantage. Policy rates will remain at low levels for some time, underpinning these markets.

Outlook

Not surprisingly, the biggest recovery in earnings next year is expected to come from the most depressed sectors. There are also grounds for believing that the value rally has a little further to run, looking at where some of these sectors' share prices sit relative to pre Covid-19. We would have concerns, however, that the earnings for many of these businesses could take a number of years to recover to those levels, and potentially structural changes mean in some cases the business position has changed forever. Our process focuses on stock selection through fundamental research, identifying resilient businesses led by strong management teams, with many levers for growth; this positions us well to identify businesses who can deliver earnings growth and earnings upgrades. In times of uncertainty, where we expect some businesses in the market will face challenges and disappoint, we think shares will be rewarded for strong earnings profiles. Historically value rallies have been short lived, and in times of much uncertainty, we would hope this is once again the case.

With regard to Brexit, we believe that the UK-EU Trade Agreement has removed many tail risks, and has improved investor sentiment towards UK markets. The portfolio has limited exposure to companies which rely on importing/exporting across the channel, and more recent news has been encouraging on a reduction in rejection rates at ports which helps relieve concern on supply chain delays. Retail does have some supply chain risks, but our recent engagement with companies would suggest current challenges are driven by global activities rather than Brexit. The impact on workforce from the EU is still to be seen; however this is another area the portfolio has limited exposure to. Sectors which are more heavily at risk from disruption are likely to be Healthcare driven by workforces, and Autos with the dominant players in Europe. The portfolio is not exposed to either of these sectors. Target Healthcare is not an operator in care homes, and we think there is less risk given its property owner position. Another sector which could be impacted by labour shortages is food production, but our holding in Hilton Food is globally diverse, and has a high level of automation which limits the people requirement. Overall we have limited concerns about negative impacts from Brexit across the portfolio.

With the removal of Brexit and those tail risks, we have seen M&A activity and IPO activity return to high levels in UK markets as well as increased levels of inflows to UK equities.

We remain cautiously optimistic about smaller companies which tend to lead a market recovery.

However, there are a number of risks to the prevailing investor optimism and earnings outlook . Returning to normal will take time given the challenges in rolling out a mass vaccination programme. We may also see more spikes in infections or mutations that could potentially trigger more lockdowns. Therefore we feel many risks around the economy driven by Covid-19 remain in place. We expect unemployment levels to rise underlying, though the numbers on furlough somewhat muddy the water on true current rates. Many businesses will adapt operationally, some sectors will not recover to pre Covid-19 levels, and companies have taken this opportunity to ensure operational efficiency; all these aspects could lead to job cuts.

Investment Manager's Review Continued

Moreover, the scale of economic scarring is only likely to become apparent in 2021. Given that the economic crisis is a direct result of government action to combat the virus, monetary and fiscal stimulus will be in place, it seems, for as long as necessary.

The pandemic has made income generation in the form of dividends more difficult. We continue to follow our process and look for stocks that have a long-term track record of reliable dividend growth, and have been pleased with the improvement in dividends being paid through the second half of 2020.

Our experience from this year is that our quality, growth, momentum process has served us well. For the majority of our holdings the crisis was not as bad as the worst expectations given the speed with which companies were able to adapt to changing circumstances, with much of the portfolio exposure in very resilient sectors. We were pleased with the underlying operational performance of the portfolio companies, and their ability and willingness to pay dividends.

Aberdeen Asset Managers Limited*
10 March 2021

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

ESG Engagement by the Manager

Introduction

Whilst ESG factors are not the over-riding criteria in relation to the investment decisions taken by the Manager for the Company, significant prominence is placed on ESG throughout the Manager's investment process. The following pages highlight the way that ESG factors are considered by the Manager. These processes are reviewed regularly and liable to change and the latest information will be available on the Company's website.

Responsible investing – integration of ESG into the Manager's investment process

"By embedding ESG factors into our active equity investment process we aim to reduce risk, enhance potential value for our investors and foster companies that can contribute positively to the world." **Aberdeen Standard Investments ("ASI")**

Core beliefs: Assessing risk, enhancing value

Whilst the management of the Company's investments is not undertaken with any specific instructions to exclude certain asset types or classes, the consideration of environmental, social and governance (ESG) factors is a fundamental part of the Manager's investment process and has been for over 30 years. It is one of the key dimensions on which the Manager assesses the investment case for any company in which it invests for three key reasons:

Financial returns	ESG factors can be financially material – the level of consideration they are given in a company will ultimately have an impact on corporate performance, either positively or negatively. Those companies that take their ESG responsibilities seriously tend to outperform those that do not
Fuller insight	Systematically assessing a company's ESG risks and opportunities alongside other financial metrics allows the Manager to make far better investment decisions.
Corporate advancement	Informed and constructive engagement helps foster better companies, protecting and enhancing the value of the Company's investments

"We believe that the market systematically undervalues the importance of ESG factors. We believe that in-depth ESG analysis is part of both fundamental company research and portfolio construction and will lead to better client outcomes" **Aberdeen Standard Investments**

Researching companies: Deeper company insights for better investor outcomes

The Manager conducts extensive and high-quality fundamental and first-hand research to fully understand the investment case for every company in its global universe. A key part of the Manager's research involves focusing its extensive resources on analysis of ESG issues. The Manager's investment managers, ESG Equity Analysts and central ESG Investment Team collaborate to generate a deep understanding of the ESG risks and opportunities associated with each company. Stewardship and active engagement with every company are also fundamental to the investment process helping to produce positive outcomes that lead to better risk-adjusted returns.

ASI's Global ESG Infrastructure

ASI has around 150 equity professionals globally. Each systematically analyses ESG risks and opportunities as part of the Manager's research output for each company. Its central team and ESG equity analysts support the investment managers' first-hand company analysis, producing research into specific themes (e.g. labour relations or climate change), sectors (e.g. forestry) and ESG topics to understand and highlight best practice. Examples of thematic and sector research can be found on aberdeenstandard.com/en/uk/investor/responsible-investing.

ESG Engagement by the Manager Continued

Investment Managers	All ASI equity investment managers seek to engage actively with companies to gain insight into their specific risks and opportunities and provide a positive ongoing influence on their corporate strategy for governance and environmental and social impact.
ESG Equity Analysts	ASI has dedicated and highly experienced ESG equity analysts located across the UK, US, Asia and Australia. Working as part of individual investment desks – rather than as a separate department – these specialists are integral to pre-investment due diligence and post-investment ongoing company engagement. They are also responsible for taking thematic research produced by the central ESG Investment Team (see below), interpreting and translating it into actionable insights and engagement programmes for our regional investment strategies.
ESG Investment Team	This central team of more than 20 experienced specialists based in Edinburgh and London provides ESG consultancy and insight for all asset classes. Taking a global approach both identifies regions, industries and sectors that are most vulnerable to ESG risks and identifies those that can take advantage of the opportunities presented. Working with investment managers, the team is key to the Manager's active stewardship approach of using shareholder voting and corporate engagement to drive positive change.

From laggards to best in class: rating company ESG credentials

A systematic and globally-applied approach to evaluating stocks allows the Manager to compare companies consistently on their ESG credentials – both regionally and against their peer group. The Manager captures the findings from its research and company engagement meetings in formal research notes. Some of the key questions include:

- Which ESG issues are relevant for this company, how material are they, and how are they being addressed?
- What is ASI's assessment of the quality of this company's governance, ownership structure and management?
- Are incentives and key performance indicators aligned with the company's strategy and the interests of shareholders?

Having considered the regional universe and peer group in which the company operates, the Manager's equity team then allocates it an ESG Quality score (ESG Q Score) between one and five (see below) which will be applied across every stock that the Manager covers globally.

1. Best in class	2. Leader	3. Average	4. Below average	5. Laggard
ESG considerations are material part of the company's core business strategy Excellent disclosure Makes opportunities from strong ESG risk management	ESG considerations not marketing leading Disclosure is good, but not best in class Governance is generally very good	ESG risks are considered as a part of principal business Disclosure in line with regulatory requirements Governance is generally good but some minor concerns	Evidence of some financially material controversies Poor governance or limited oversight of key ESG issues Some issues in treating minority shareholders poorly	Many financially material controversies Severe governance concerns Poor treatment of minority shareholders

The Manager also uses a combination of external and proprietary in-house quantitative scoring techniques to complement and cross-check analyst-driven ESG assessments. ESG analysis is peer-reviewed within the equities team, and ESG factors impacting both sectors and stocks are discussed as part of the formal sector reviews. To be considered 'best in class', the management of ESG factors must be a material part of the company's core business strategy. It must provide excellent disclosure of data on key risks. It must also have clear policies and strong governance structures, among other criteria.

Working with companies: Staying engaged, driving change

Once ASI invests in a company, it is committed to helping that company maintain or raise their ESG standards further, using the Manager's position as a shareholder to press for action as needed. ASI actively engages with the companies in which it invests to help them stay good companies and become even better businesses.

The Manager sees this programme of regular engagement as a necessary fulfilment of its duty as a responsible steward of clients' assets. It is also an opportunity to share examples of best practice seen in other companies and to use the Manager's influence to effect positive change. The Manager's engagement is not limited to the company's management team. It can include many other stakeholders such as non-government agencies, industry and regulatory bodies, as well as activists and the company's clients. What gets measured gets managed – so the Manager strongly encourages companies to set clear targets or key performance indicators on all material ESG risks where appropriate.

The investment process consists of four interconnected and equally important stages.

Monitor	Contact	Engage	Act
Ongoing due diligence	**Frequent dialogue**	**Exercise rights**	**Consider all options**
· Business performance · Company financials · Corporate governance · Company's key risks and opportunities	· Senior executives · Board members · Heads of departments and specialists · Site visits	· Attend AGMs/EGMs · Always vote · Explain voting decisions · Maximise influence to drive positive outcomes	· Increase or decrease our shareholding · Collaborate with other investors · Take legal action if necessary

Environmental, Social and Governance ("ESG") considerations within ASI's Smaller Companies team investment process

ASI's Smaller Companies team (the "Team") considers ESG risks and opportunities for all of its investments and thus, ESG considerations are inextricably embedded into the investment process in order to achieve a successful and sustainable performance for the longer term. There is a broad understanding within ASI and the Team that a full and thorough assessment of ESG factors allows better investment decisions to be made that lead to better outcomes for clients; with ESG aspects considered alongside other financial and fundamental factors in order to make the best possible investment decisions at a stock picking and at a portfolio construction level.

ESG analysis is a core constituent in the "Quality" analysis of the Team's fundamental research. Especially for smaller companies, both risks and opportunities matter, and thus the research approach and analysis reviews this accordingly. As stated above, all of the analysts are required to undertake an ESG quality assessment (ESG Q score analysis) which will be reflected this in the research note provided for each of the companies under coverage. The ESG Quality of a company is one of the core considerations in ensuring that the traditionally lower risk investment approach continues and portfolios will be weighted towards companies with higher scores.

The Team has a very close relationship with the ESG specialists within ASI, while at the same time having an on-desk ESG analyst to assist in the above research process and ESG engagements with companies. Tzoulianna Leventi is the on-desk ESG analyst for the Smaller Companies team and joined the team in 2020. Through the utilisation of third party provided research such as MSCI and, more recently ASI's in-house ESG rating tools, the Team is able to identify, where appropriate, leaders and laggards, areas of weakness and areas of strength. Ratings processes for Smaller Companies can be less accurate given data availability and coverage, and therefore the engagement and fundamental research the Managers and ESG Equity Analyst do with the investee companies if critical in adding value and ensuring the most important ESG risks and opportunities are well identified. Given the importance of ESG matters these factors are reviewed on an ongoing basis in addition to monitoring companies actions to assess the need for further engagement and/or changes to the internal investment view. Finally, as part of broader stewardship activities, the Team participates actively in the voting process of the holdings, in line with best practice.

Overview of Strategy

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

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

Investment Objective 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 smaller UK companies and UK fixed income securities.

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

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

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

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

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

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

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

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

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

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

KPI	Description
Performance of net asset value against the benchmark index	The Board considers the Company's net asset value total return figures to be the best indicator of performance over time and is therefore the main indicator of performance used by the Board. The Board measures performance against the benchmark index. The returns over 1, 3 and 5 years are provided on page 27 and a graph showing performance against the benchmark index is shown on page 28.
Revenue return and dividend growth	The Board monitors the Company's net revenue return and dividend growth through the receipt of detailed income forecasts and considers the level of income at each meeting. The Company aims to grow the dividend at a level above CPI when taken over a number of years. A graph showing the dividends and yields over 5 years is provided on page 29.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. A graph showing the share price total return performance against the benchmark index is shown on page 28.
Discount/premium to net asset value	The discount/premium relative to the net asset value per share represented by the share price is monitored by the Board. A graph showing the share price discount/premium relative to the net asset value is shown on page 28.
Ongoing charges ratio (OCR)	The Company's ongoing charges ratio (OCR) is provided on page 3. The Board reviews the OCR, taking account of its total assets.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its business model, financial position, future performance, solvency or liquidity and prospects. The Board has in place a robust process to identify, assess and monitor the principal risks and uncertainties facing the Company and to identify and evaluate newly emerging risks. A summary of the principal risks together with their mitigating action is set out below.

The Board has adopted a risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers. This risk matrix is reviewed formally every six months but risks, including emerging risks, are, if appropriate, discussed by the Board at, or between, formal Board quarterly meetings.

The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet or they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are on the Company's website.

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

Overview of Strategy Continued

Description	Mitigating Action
Investment portfolio management Investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.	The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and monitors compliance with the guidelines through regular reports from the Manager, including performance reporting.
Major market event or geo-political risk The Company is exposed to stockmarket volatility or illiquidity as a result of a major market shock due to a national or global crisis. The impact of such risks, associated with the portfolio or the Company itself, could result in disruption on the operations of the Company and losses.	External risks over which the Company has no control are always a risk. The Company does what it can to address these risks where possible, not least operationally and to try and meet the Company's investment objectives. The Board is cognisant of the risks arising from the outbreak and spread of the Coronavirus around the world, including stockmarket instability and longer term economic effects, and the impact on the operations of the third-party suppliers, including the Manager.The Manager has undertaken an assessment of the Company's portfolio and is in close communication with the underlying investee companies in order to navigate and guide the Company through the current challenges. The Manager assesses and reviews the investment risks arising from Covid-19 on companies in the portfolio, including but not limited to: employee absence, reduced demand, supply chain breakdown, balance sheet strength, ability to pay dividends, and takes the necessary investment decisions. The Manager has extensive business continuity procedures and contingency arrangements to ensure they are able to service their clients, including investment trusts. The services from third parties, including the Manager, have continued to be supplied effectively and the Board will continue to monitor arrangements through regular updates from the Manager.
Gearing risk Gearing has the effect of accentuating market falls and market gains. The inability of the Company to meet its financial obligations, or an increase in the level of gearing, could result in the Company becoming over-geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.	The Board monitors the Company's actual gearing levels (including equity gearing) in relation to its assets and liabilities and reviews the Company's compliance with the principal loan covenants. The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million three year variable rate loan. The facility commenced in April 2018 and at 31 December 2020, £7 million was drawn down (£5 million fixed rate and £2 million variable rate).

Description	Mitigating Action
Income and dividend risk The ability of the Company to pay dividends and any future dividend growth will depend over the longer term on the level of income generated from its investments and the timing of receipt of such income by the Company. In the shorter term the size of the Company's revenue reserves will determine the extent that shareholder dividend payments can be less volatile than the dividends actually paid by the companies in which the Company invests. Accordingly there is no guarantee that the Company's dividend objective will continue to be met.	The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting and the Manager has developed detailed and sophisticated models for forecasting and monitoring dividend payments.
Operational risk The Company is dependent on third parties for the provision of services and systems, in particular those of the Manager and the Depositary. Failure by a third party provider to carry out its contractual obligations could result in loss or damage to the Company. Disruption, including that caused by information technology breakdown or other cyber-related issue, could prevent the functioning of the Company.	Written agreements are in place defining the roles and responsibilities of third party providers and their performance is reviewed on an annual basis. The Board reviews regular reports from the Manager on its internal controls and risk management systems, including internal audit and compliance monitoring functions. The Manager reports to the Board on the control environment and quality of service provided by third parties, including business continuity plans and policies to address cyber crime. Further details of internal controls are set out in the Audit Committee's Report.

Promoting the Success of the Company

The Board is required to report on how it has discharged its duties and responsibilities under section 172 of the Companies Act 2006 (the "s172 Statement"). Under section 172, the Directors have a duty to promote the success of the Company for the benefit of its members as a whole, taking into account the likely long term consequences of decisions, the need to foster relationships with the Company's stakeholders and the impact of the Company's operations on the environment.

The Company consists of four Directors and has no employees or customers in the traditional sense. Without a variety of external stakeholders, the Company can neither exist nor flourish. Our shareholders own us and the Company's Manager, ASFML, provides investment management services. A number of other stakeholders support us by providing regulatory and other services, including secretarial, administration, depositary, custodial, banking and audit services. For example, BNP Paribas is our Depository and EY is our auditor.

Our relationship with each is different. We meet the Manager on a quarterly basis but might meet our investors, both institutional and retail, only once a year. We often need to balance the interests of different stakeholders, for example, in agreeing their fees.

The Board's principal concern has been, and continues to be, the interests of the Company's shareholders and potential investors. The Manager undertakes an annual programme of meetings with the largest shareholders and reports back to the Board on issues raised at these meetings. In normal circumstances, the Board encourage all shareholders to attend and participate in the Company's AGM and can contact the Directors via the Company Secretary. Shareholders and investors can obtain up-to-date information on the Company through its website and the Manager's information services and have direct access to the Company through the Manager's customer services team or the Company Secretary. As the normal format of the 2020 AGM was not able to take place due to the Covid-19 restrictions in place, a number of presentations and podcasts by the Manager were made available on the Company's website for shareholders to access.

The Board believes that one of the key strategies of the Company, for its long-term stability and sustainability, is to develop share ownership among the growing retail and self-directed investors. Approximately 49% of the shares are currently held by such investors. In order to raise and maintain awareness of the Company, the Board participates in the promotional programme run by the Manager on behalf of a number of

Overview of Strategy Continued

investment trusts under its management. The purpose of the programme is both to communicate effectively with existing shareholders and to reach more new shareholders, thus improving liquidity and enhancing the value and rating of the Company's shares. Regular reports are provided to the Board on promotional activities as well as analysis of the shareholder register.

As the Company has no employees, the culture of the Company is embodied in the Board of Directors. In seeking to deliver the Company's investment objective for shareholders, our values are trust and fairness while challenging constructively, and in a respectful way, our advisers and other stakeholders.

The Board undertakes a robust evaluation of the Manager, including investment performance and responsible ownership, to ensure that the Company's objective of providing sustainable income and capital growth for its investors is met. The portfolio activities undertaken by the Manager on behalf of the Company can be found in the Manager's Review and details of the Board's relationship with the Manager and other third party providers, including oversight, is provided in the Statement of Corporate Governance.

Key decisions and actions during the year to 31 December 2020, which required the Directors to have greater focus on stakeholders included:

Success of the Continuation Vote
The Board, Manager and broker engaged with the key shareholders on the continuation vote which was successfully passed at the AGM in June 2020, with 99.7% of votes in favour.

Dividends paid to shareholders
2020 was a period of great uncertainty, when many quoted companies either cut or cancelled their dividends which impacted the level of the Company's income and the net revenue available for distribution as dividends. The Board recognises the importance of dividends to shareholders. Over recent years, the Company had built up a significant level of revenue reserves and the Board agreed it would be more valuable for shareholders to utilise these reserves to support the Company's dividend policy this year and to alleviate the decline of dividend income elsewhere. Accordingly, after reviewing the Company's revenue forecasts and the general investment outlook with the Manager, the Board declared four quarterly dividends totally 8.24p, which was largely in line with the 2019 dividend level of 8.25p.

Management of the portfolio
As in previous years, the Board focused on the performance of the Manager in achieving the Company's investment objective within an appropriate risk framework. Following the emergence of the Covid-19 crisis in early 2020, there was increased interaction between the Board and the Manager to consider the impact on the Company (including portfolio activity, risks and opportunities, gearing and revenue forecasts) to ensure that the Company had sufficient resilience in its portfolio and operational structure to meet the challenged circumstances, which has proved to be the case.

Directorate
The Board's succession plan to recruit a new Director in 2020 was delayed, due to the logistical difficulty of meeting candidates in person and also the importance of maintaining Board stability during a most challenging period. Accordingly, and subject to shareholder support, the Board intends to continue with its succession plan and appoint two new Directors before the end of the 2021 financial year.

Third party service providers
Following a review by the Management Engagement committee, the Board was satisfied with the performance of the Manager and its key service providers. Despite the many challenges arising from the Covid-19 pandemic, the Company continued to receive 'BAU' service with minimal disruption.

The Board is supportive of the Manager's philosophy that Environmental, Social and Governance (ESG) factors are fundamental components for responsible investing. ESG considerations are embedded in the investment process undertaken by the Manager and the Manager dedicates a significant amount of time and resource on focusing on the ESG characteristics of the companies in which they invest. Further details of how the Manager have sought to address ESG matters across the portfolio are disclosed in the Statement of Corporate Governance.

The Manager is also a tier 1 signatory of the UK Stewardship Code which aims to enhance the quality of engagement by investors with investee companies in order to improve their socially responsible performance and the long term investment return to shareholders.

The Company is a long term investor and the Board has in place the necessary procedures and processes to continue to deliver the Company's investment proposition and to promote the long term success of the Company for the benefit of its shareholders and stakeholders.

Duration

The Company does not have a fixed life. However, the Company's articles of association require that an ordinary resolution is proposed at every fifth Annual General Meeting to allow the Company to continue as an investment trust for a further five year period. The Company's continuation vote held in 2020 was supported by shareholders and the next continuation vote is scheduled for 2025.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge represented on the Board in order to allow the Board to fulfill its obligations. Each Director brings different skills and experience to the Board. The Board also recognises the benefits, and is supportive, of the principle of diversity in its recruitment of new Board members. At 31 December 2020, the Board consisted of three males and one female.

Employee, Environmental, Social and Human Rights Issues

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

Modern Slavery Act

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

Global Greenhouse Gas Emissions

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

The Company qualifies as a "low energy user" under the Streamlined Energy and Carbon Reporting Requirements (SECR), and that its energy and carbon information is not disclosed for that reason.

Viability Statement

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

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

- The principal risks detailed in the Strategic Report on pages 21 to 23 and the steps taken to mitigate these risks. In particular, the Board has considered the operational ability of the Company to continue in the current environment, which has been impacted by the global Covid-19 pandemic, and the ability of the key third-party suppliers to continue to provide essential services to the Company. Third party services have continued to be provided effectively;
- The investment objective in the current environment remains attractive. A resolution for the continuation of the Company was passed at the AGM in June 2020 showing ongoing support for the Company's mandate. The Company has continued to deliver sustained dividend growth as well as good capital growth over the longer term;
- The outlook for the Company and its portfolio detailed in the Chairman's Statement and the Investment Manager's Review;
- The Company is invested in readily realisable listed securities;
- The level of revenue surplus generated by the Company over a number of years and its ability to achieve its dividend objective;
- The level of gearing is closely monitored. Covenants are actively monitored and there is adequate headroom in place. The Company has the ability to renew its gearing or repay its borrowings through proceeds from sales of investments. Initial discussions with banks have commenced with a view to renewing the facility;
- The impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values.

Overview of Strategy Continued

When considering the risk of under-performance, the Board reviewed the impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values. The Board also considered that matters such as significant economic or stock market volatility, a substantial reduction in the liquidity of the portfolio, or changes in investor sentiment could have an impact on its assessment of the Company's prospects and viability in the future and the period over which the performance of the Trust is monitored. The results of the stress tests have given the Board comfort over the viability of the Company.

Accordingly, taking into account all of these factors, the Company's current position and the potential impact of its principal risks and uncertainties, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of this Report.

Robert Lister,
Chairman
10 March 2021

Performance

Performance (Total Return)

	1 year % return	3 year % return	5 year % return
Net asset value[A]	–4.1	+10.1	+58.3
Share price (based on mid price)[A]	–5.1	+19.4	+71.1
Composite Index[B]	–4.3	–2.9	+26.3
Numis Smaller Companies ex Inv Trust Index	–4.3	+1.4	+34.6
FTSE Small Cap ex Inv Trust Index	+1.7	+3.1	+34.2
FTSE All-Share Index	–9.8	–2.7	+28.5

[A] Considered to be an Alternative Performance Measure. Further details can be found on page 82.
B FTSE Small Cap ex Inv Trust Index up to 31 December 2019 and Numis Smaller Companies ex Inv Trust Index from 1 January 2020.
Source: Aberdeen Standard Investments, Lipper & Morningstar

Ten Year Financial Record

Year to 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue available for Ordinary dividends (£'000)	1,329	1,257	1,496	1,579	1,666	1,622	1,716	1,997	2,206	1,238
Per share (p)										
Net revenue return	6.01	5.69	6.77	7.14	7.54	7.34	7.76	9.03	9.98	5.60
Net dividends paid/proposed	6.00	6.05	6.25	6.45	6.65	6.85	7.05	7.35	8.25	8.24
Total return	(16.70)	41.92	74.73	(5.00)	29.96	19.79	85.19	(48.74)	96.49	(16.37)
Net asset value per share	133.5	169.5	238.0	226.6	249.9	262.9	341.1	285.2	373.9	348.9
Shareholders' funds (£m)	**29.5**	**37.5**	**52.6**	**50.1**	**55.3**	**58.1**	**75.4**	**63.1**	**82.7**	**77.1**

Cumulative Performance[A]

Rebased to 100 at 31 December 2010

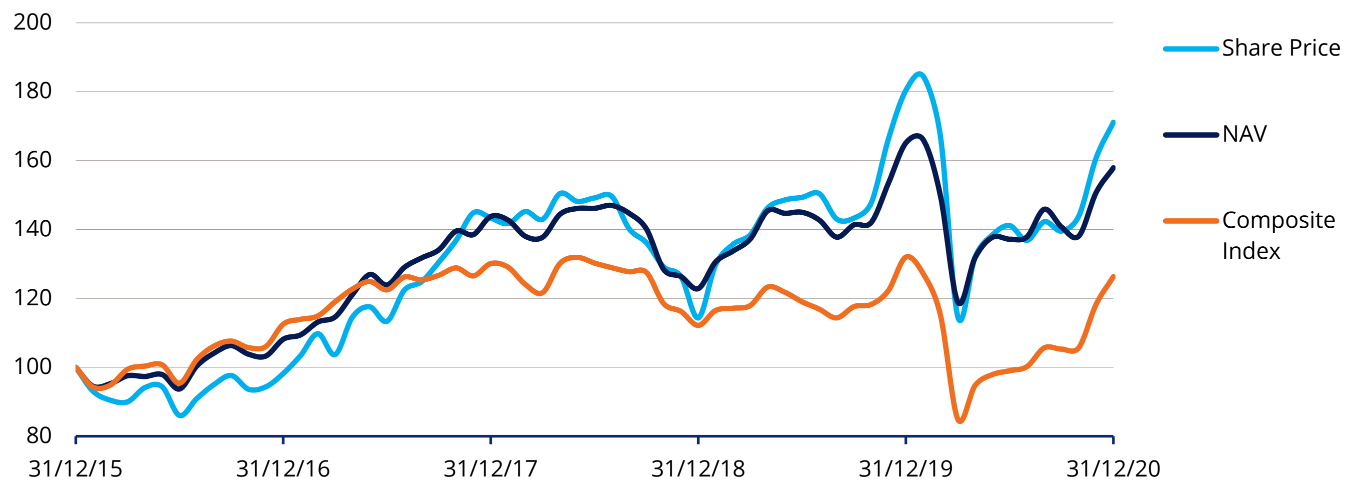
As at 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NAV performance	100.0	85.5	108.5	152.3	145.0	160.0	168.3	218.3	182.5	239.3	221.3
NAV total return[A]	100.0	88.9	117.5	170.3	166.8	189.1	204.6	271.9	232.3	312.2	298.6
Share price performance	100.0	78.6	112.6	165.8	136.8	159.5	151.3	214.1	166.5	255.0	232.7
Share price total return[A]	100.0	82.4	124.2	188.9	160.7	193.5	190.0	277.3	221.2	348.9	331.0
Composite Index performance[B]	100.0	82.3	108.8	152.6	145.2	159.6	174.2	195.9	163.3	185.8	174.7
Composite Index total return[AB]	100.0	84.8	115.6	166.3	161.9	182.9	205.8	238.0	205.1	241.4	231.0
Numis Smaller Companies ex Inv Trust performance	100.0	88.3	111.5	148.4	141.6	152.1	164.3	190.9	156.8	190.0	178.6
Numis Smaller Companies ex Inv Trust total return	100.0	90.9	118.1	161.7	158.7	175.5	195.0	233.0	197.2	246.9	236.3
FTSE Small Cap ex Inv Trust Index performance	100.0	82.3	108.8	152.6	145.2	159.6	174.2	195.9	163.3	185.8	185.4
FTSE Small Cap ex Inv Trust Index total return	100.0	84.8	115.6	166.3	161.9	182.9	205.8	238.0	205.1	241.4	245.4

[A] Total return figures are considered to be an Alternative Performance Measure and based on reinvestment of net income.
[B] FTSE Small Cap ex Inv Trust Index up to 31 December 2019 and Numis Smaller Companies ex Inv Trust Index from 1 January 2020.

Performance Continued

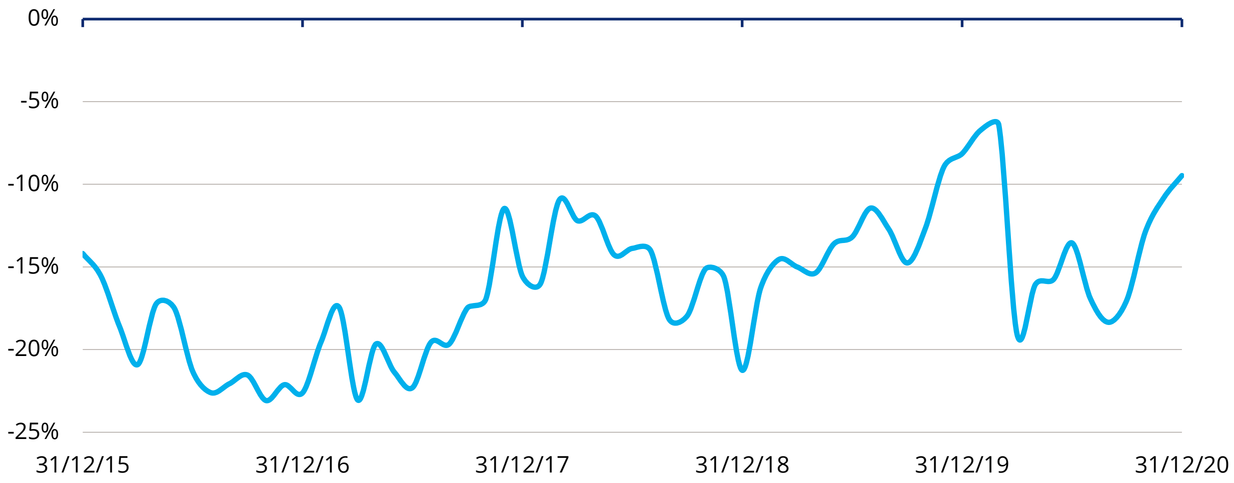
Total Return of NAV and Share Price vs Composite Index

Figures are total return and have been rebased to 100 at 31 December 2015



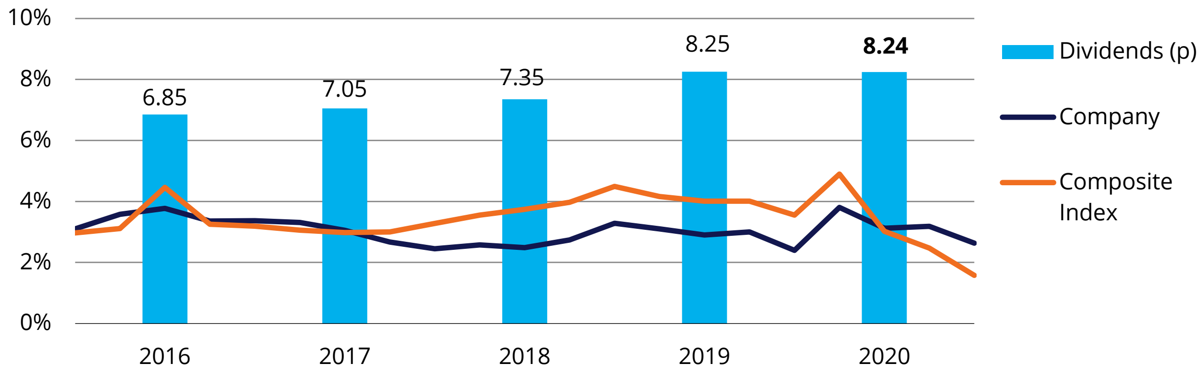
Share Price Discount to Net Asset Value

Five years to 31 December 2020



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

Five years to 31 December 2019



Overview
Strategic Report
Portfolio
Governance
Financial Statements
Corporate Information
General

Portfolio

The Company produced a solid performance during an extremely challenging year, with the Company's NAV delivering a total return of -4.1% compared to a benchmark return of -4.3%.

XP Power is a manufacturer and supplier of power converters to the Industrial, Semiconductor, Technology and Healthcare markets. Their core AC-DC product converts alternating current from the mains to direct current, this is required for virtually all electrical equipment

Ten Largest Investments

As at 31 December 2020

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

XP Power
A power solutions business that designs and manufactures power convertors used by customers to ensure their electronic equipment can function both safely and efficiently. With over 5,000 different products, XP Power can provide a full value add capability to its customers.

Intermediate Capital Group
Global alternative asset manager in private debt, credit and equity.

DiscoverIE Group
DiscoverIE Group is a supplier of niche electronic products, manufacturing customs designed and built electronics to industrial and medical companies across Europe and South Africa.

Assura
Assura is a long-term investor and developer of primary care property, working with general practitioners, health professionals and National Health Services to deliver patient care.

Liontrust Asset Management
UK based asset manager, managing assets across a range of asset classes.

Sirius Real Estate
Germany property business, managing and operating a range of multi use, out of town locations

Softcat
Value added technology reseller in UK

Morgan Sindall
UK leading business in construction and regeneration work.

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

Equity Investments

At 31 December 2020

Company	Sector classification	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Games Workshop	Leisure Goods	3,232	3.9	2,030
XP Power	Electronic & Electrical Equipment	3,075	3.7	2,884
Intermediate Capital Group	Financial Services	3,025	3.7	3,603
DiscoverIE Group	Electronic & Electrical Equipment	2,996	3.6	3,626
Assura	Real Estate Investment Trusts	2,956	3.6	3,548
Liontrust Asset Management	Financial Services	2,905	3.5	2,455
Sirius Real Estate	Real Estate Investment & Services	2,778	3.4	1,485
Softcat	Software & Computer Services	2,632	3.2	914
Morgan Sindall	Construction & Building Materials	2,604	3.2	2,747
Telecom Plus	Fixed Line Telecommunications	2,436	2.9	2,551
Ten largest investments		**28,639**	**34.7**	
Hollywood Bowl	Travel & Leisure	2,372	2.9	3,232
AJ Bell	Financial Services	2,303	2.8	2,279
Unite Group	Real Estate Investment Trusts	2,297	2.8	2,793
Hilton Food Group	Food Producers	2,181	2.6	2,149
Aveva Group	Software & Computer Services	2,076	2.5	3,885
Ultra Electronics	Aerospace & Defense	1,923	2.3	1,962
Strix Group	Electronic & Electrical Equipment	1,867	2.3	706
FDM	Software & Computer Services	1,806	2.2	2,939
Safestore Holdings	Real Estate Investment Trusts	1,795	2.2	–
Kesko[A]	Food & Drug Retailers	1,783	2.2	1,263
Twenty largest investments		**49,042**	**59.5**	
Close Brothers	Banks	1,769	2.1	2,046
Chesnara	Life Insurance	1,730	2.1	1,842
Bytes Technology	Software & Computer Services	1,688	2.0	–
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	1,585	2.0	2,610
Diploma	Support Services	1,568	1.9	1,451
Victrex	Chemicals	1,545	1.9	2,507
MJ Gleeson	Household Goods & Home Construction	1,456	1.8	1,768
Tatton Asset Management	Financial Services	1,434	1.7	–
Moneysupermarket	Media	1,316	1.6	1,670
Midwich	Support Services	1,273	1.5	2,169
Thirty largest investments		**64,406**	**78.1**	

Equity Investments Continued

At 31 December 2020

Company	Sector classification	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Alpha Financial Markets Consulting	Support Services	1,248	1.5	1,392
Marshalls	Construction & Materials	1,237	1.5	1,166
Somero Enterprises	Industrial Engineering	1,218	1.5	755
Halfords	General Retailers	1,148	1.4	–
Dunelm	General Retailers	1,122	1.4	–
Polar Capital Holdings	Financial Services	1,006	1.2	–
Target Health Care	Real Estate Investment Trusts	993	1.2	–
Forterra	Construction & Materials	965	1.2	1,373
Primary Health Properties	Real Estate Investment Trusts	920	1.1	–
Impax Asset Management	Financial Services	905	1.1	–
Forty largest investments		**75,168**	**91.2**	
Stock Spirits Group	Beverages	882	1.1	–
4Imprint Group	Media	855	1.0	1,814
Severfield	Industrial Engineering	825	1.0	–
Fisher (James) & Sons	Industrial Transportation	823	1.0	1,784
RWS Holdings	Support Services	717	0.9	–
Gateley Holdings	Support Services	606	0.7	–
Rathbone Brothers	Financial Services	478	0.6	1,307
Total Equity investments		**80,354**	**97.5**	

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

Other Investments

At 31 December 2020

Company	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Corporate Bonds[A]			
NGG Finance 5.625% 18/06/73	458	0.5	–
Close Brothers 3.875% 27/06/21	406	0.5	–
Barclays Bank 9% Perp	364	0.4	374
Heathrow Funding 5.225% 15/02/23	326	0.4	–
SSE 3.625% Var 16/09/77	308	0.4	–
HSBC Holdings 6.5% 20/05/24	238	0.3	–
Total Corporate Bonds	**2,100**	**2.5**	
Total Investments	**82,454**	**100.0**	

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

Distribution of Assets and Liabilities

At 31 December 2020

	Valuation at 31 December 2019 £'000	%	Movement during the year Purchases £'000	Sales £'000	Gains/ (losses) £'000	Valuation at 31 December 2020 £'000	%
Listed investments							
Equity investments	87,930	106.4	19,508	(22,697)	(4,387)	80,354	104.2
Corporate bonds	878	1.1	1,696	(500)	26	2,100	2.7
	88,808	107.5	21,204	(23,197)	(4,361)	82,454	106.9
Current assets	1,074	1.3				1,935	2.5
Other current liabilities	(235)	(0.3)				(254)	(0.3)
Loans	(6,987)	(8.5)				(6,991)	(9.1)
Net assets	**82,660**	**100.0**				**77,144**	**100.0**
Net asset value per Ordinary share	**373.86p**					**348.91p**	

Investment Case Studies

Bytes Technology Group

Bytes was a recent IPO we took part in. Bytes is a value added reseller in the UK technology market, and selling to both public and private enterprises. They are well diversified with around 5000 customers, with the top 10 representing only 8% of gross profit. Bytes focus predominantly on software which is 92% of revenue, with strong exposures to growth areas such as Cloud, Security and Software Asset Management. Bytes operate in a very fragmented market, and despite having a top 10 position they only have 3% market share; we believe this gives them strong opportunities for growth and they are outgrowing peers. Their exposure to software is higher than other UK VARs, as a key differentiator in the market.

VARs are a critical part of the technology industry, with leading providers such as Microsoft, Adobe and Oracle relying on them as a route to market. Customers also rely on the expertise, knowledge and advice that players like Bytes provide which is critical to many investment decisions companies are making. Technology is an area of constant change and evolution, helping drive structural growth in the industry and the continued need for investment by customers. This is a positive driver for Bytes and their valued market position.

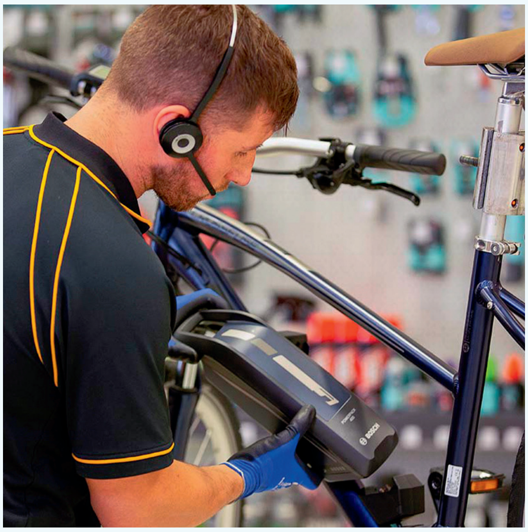
Bytes have a strong customer base, where their strong sales and service execution helps ensure those customers are loyal and sticky. The renewal rate of customers is evidence of this, with 92% of gross profit last year from existing customers. Their business model and exposure to software gives them strong visibility in revenue, despite it not being contracted. Over 60% of gross profit is from licenses which are annually or periodically renewable. Bytes are increasingly taking wallet share from their customers, therefore their existing customer base drives strong sales growth outlook. Additional to this, Bytes continue to win new customers, and we believe the strength of being a listed business will help their brand recognition.

Bytes has a strong culture, with impressive Glassdoor scores and having won awards such as “Best Place to Work”. Their staff tenure particularly in their sales team is very strong, only 1 of the top 50 sales people having left and not returned in the last 5 years. Their culture focused on integrity as one of their core values, key in managing people in a competitive sales organisation. Their strong incentivisation structure on commission helped retain successful employees, as does a good training and development regime. Their staff split it 50/50 between male and female. They’ve also aligned their Corporate Social Responsibility policy to the UN Sustainable Development Goals, and heavily involved staff in that process to ensure they shaped this to feel true to the business and employees feel connected to these.

Bytes have a strong track record of sales and profit growth, as well as cash generation. They traded well through the uncertain environment of Covid. They have a net cash balance sheet, and will have a well-founded ability to pay dividends. They expect to pay out 40-50% of adjusted net income as dividends. Forecasts are for high single digit profit growth over the next few years and we believe these forecasts can be upgraded over time. They operate an asset-light business model, which drives a high ROE of 50%.

Halfords

Halfords is a business we believe is undergoing positive change which should improve both the quality and growth of the business going forwards. Halfords is the UK's leading retailer of motoring, cycling and leisure products and services and has brand strength. Through Halfords Autocentres, it is also one of the larger UK independent operators in vehicle servicing, maintenance and repairs. Retail accounts for 76% of group sales currently, split two thirds motoring and one third cycling.



Investment over the past few years has focused on stabilising margins, investing for growth, investing in the online platform. Their improving Net Promoter Scores in both Retail and Autocentres are evidence that customers have a more positive view on both offerings. Investment in linking up their retail offering with services makes it a simple pathway for customers to purchase the correct parts required for their vehicles and have those fitted at their local store or centre. 70% of their customers claim they are time poor, lack the skillset or just want the convenience of having the job done for them.

Halfords hold 20-25% share of the cycling market, which is forecast to grow at above 3%. Covid has accelerated the cycling market growth, with people looking to avoid public transport, improve their health, and often have more free time given less commuting. The government are committed to investing in more cycle lanes nationally for safety, which should encourage more people to take to two wheels. E-bikes is an additional growth driver in the market, encouraging those less able to cycle to participate, or assisting people in completing longer journeys by bike. E-bikes are more expensive, and require a great knowledge of understanding at time of purchase as well as more frequent servicing. This all plays strongly into the Halfords proposition, where consumers will be attracted to purchase from a specialist, who they can rely on to provide advice and to be there to service and repair any issues ongoing. E-bikes should lead to a more valuable and visible revenue stream for Halfords than traditional cycling.

Car sales acceleration also provides a growth underpin, with the safety fears of public transport driving many families to purchase an additional vehicle. As the market moves more towards hybrid and electric vehicles, these are increasingly complex and play into a higher servicing requirement.

Halfords have unfortunately had a number of management transitions in recent years, however we have been impressed with the current CEO and CFO. In particular there is much tighter control on financials, the supply chain, and on the future returns potential. The business under this team appear to be investing in areas which should position them in a stronger competitive position, and capture structural growth.

Halfords have an attractive apprenticeship scheme and training programme, on both cycling and motoring. This is a positive for job creation, career development, as well as providing for the future given their increased focus on servicing propositions. Environmental considerations are taken into account on battery disposal, recycling, as well as their products in cycling focused on better health and wellbeing, and reducing carbon footprint. They also supported colleagues financially through the pandemic, as well as launching a Wellbeing Hub, and funding flu vaccines across the group.

We believe the cash generation and balance sheet of Halfords mean it can be a strong dividend payer in future, whilst still being able to invest in the business.

DiscoverIE is a designer, manufacturer and supplier of customised electronic components. The strategy is to focus on generating organic growth in four target markets, where their products should see increasing demand over the longer term

Governance

The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

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

Your Board of Directors

Robert Lister

Status:
Independent Chairman

Experience:
Over 20 years' experience of investment management and formerly global head of equities at Dresdner Kleinwort and head of European equities at Barclays de Zoete Wedd. He is the non-executive Chairman of finnCap and Credit Suisse Asset Management UK and a non-executive director of IntegraFin Holdings.

Length of service:
9 years, appointed in March 2012

David Fletcher

Status:
Audit Committee Chairman

Experience:
A chartered accountant, with over 20 years' experience of investment banking with JPMorgan, Robert Fleming & Co. and Baring Brothers & Co Limited. He was the group finance director of Stonehage Fleming Family & Partners, a leading independently owned multi-family office, until September 2019. He is a non-executive director of JP Morgan Claverhouse Investment Trust and Ecofin US Renewables Infrastructure Trust .

Length of service:
4 years, appointed in August 2016

Dagmar Kent Kershaw

Status:
Independent
Non-Executive Director

Experience:
Over 20 years' investment experience specialising in credit and structured finance markets. She was head of credit fund management for Europe and Asia-Pacific at Intermediate Capital Group from 2008 until 2016. Prior to that she was the founder and head of structured products at Prudential M&G and was also head of debt private placements. She began her career at Scotiabank and NatWest Bank. She is a non-executive director of Brooks MacDonald and a member of the advisory council for Strategic Value Partners.

Length of service:
3 years, appointed in May 2017

Barry Rose

Status:
Independent
Non-Executive Director

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

Length of service:
10 years, appointed in March 2011

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Results and Dividends

The financial statements for the year ended 31 December 2020 are contained on pages 63 to 81.

A fourth interim dividend of 2.40p per share was declared by the Board in December 2020 with a record date of 4 January 2021 and was paid on 29 January 2021. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2021.

Investment Trust Status

The Company is registered as a public limited company and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448. The Company has been approved by HM Revenue & Customs as an investment trust subject to the Company continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the on-going requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 January 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2020 so as to enable it to comply with the on-going requirements for investment trust status.

Individual Savings Accounts ("ISAs")

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

Corporate Governance

The Statement of Corporate Governance, which forms part of the Directors' Report is provided on pages 44 to 46.

Capital Structure

At 31 December 2020, the Company had 22,109,765 fully paid Ordinary shares of 50p each (2017 – 22,109,765 Ordinary shares). There have been no changes in the Company's issued share capital subsequent to the year end, up to the date of this Report. Each Ordinary share holds one voting right and shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares carry a right to receive dividends. On a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings. There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law.

Management Agreement

The Company has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager"), a wholly owned subsidiary of Standard Life Aberdeen plc, as its alternative investment fund manager ("AIFM"). ASFML has been appointed to provide investment management, risk management, administration and company secretarial services as well as promotional activities. The Company's portfolio is managed by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a group delegation agreement in place between ASFML and AAML. In addition, ASFML has sub-delegated promotional activities to AAML and administrative and secretarial services to Aberdeen Asset Management PLC. The management fee, details of which are shown in note 4 to the financial statements, is 0.75% per annum of net assets. The contract may be terminated by either the Company or the Manager on the expiry of six months' written notice.

Substantial Interests

The Board has been advised that the following shareholders owned 3% or more of the issued Ordinary share capital of the Company at 31 December 2020:

Shareholder	Number of shares held	% held
Aberdeen Standard Investment Trust Savings Plans	4,407,195	19.9
Aberdeen Standard Investments	3,120,476	14.1
Hargreaves Lansdown	2,197,355	9.9
Interactive Investor	2,061,040	9.3
Philip J Milton	1,233,457	5.6
Charles Stanley	971,205	4.4
JPMorgan Securities CREST transition	873,174	3.9
AJ Bell	781,170	3.5

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

Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in the preparation of the financial statements.

The Company's assets consist substantially of securities in companies listed on recognised stock exchanges and in normal circumstances are realisable within a short timescale.

Directors' Report Continued

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary.

The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan which expires in 2023 and a revolver £5 million loan which expires in 2021. A replacement option for the revolver element of the facility is currently being sought or should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of investments sales as required. £2 million of the revolver loan was drawn down at the date of this report.

The Company undertakes a continuation vote every five years. The last continuation vote was passed at the AGM held in June 2020 with 99.7% of votes in favour.

The Board has considered the impact of Covid-19 and believes that this will have a limited financial impact on the Company's operational resources and existence. 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 Company has the ability to raise sufficient funds so as to remain within its debt covenants and pay expenses.

Taking the above factors into consideration, the Board has a reasonable expectation that the Company has adequate financial resources to continue in operational existence for a period until 31 December 2022 and, accordingly, continues to adopt the going concern basis in preparing the financial statements.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 55 and 61. In accordance with Section 418 (2) of the Companies Act 2016, the Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. Additionally there have been no important events since the year end.

Annual General Meeting

The Annual General Meeting will be held on 28 April 2021 at 9.00 am and the following resolutions will be proposed:

Section 551 authority to allot shares

Resolution 9, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,960, representing approximately one third of the total Ordinary share capital of the Company in issue as at the date of this document, such authority to expire on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Disapplication of Pre-emption Provisions

Resolution 10 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 12, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

Purchase of the Company's own Ordinary Shares

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

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting.

Adoption of new Articles of Association

Resolution 12, which will be proposed as a special resolution, seeks shareholder approval to adopt new Articles of Association (the **'New Articles'**) in order to update the Company's current Articles of Association (the **'Existing Articles'**). The proposed amendments being introduced in the New Articles primarily relate to changes in law and regulation and developments in market practice since the Existing Articles were adopted, and principally include:

- provisions enabling the Company to hold shareholder meetings using electronic means (as well as physical shareholder meetings or hybrid meetings); and
- changes in response to the introduction of international tax regimes requiring the exchange of information.

A summary of the principal amendments being introduced in the New Articles which the Board considers will be of most interest to shareholders is set out in the appendix to the AGM Notice (on page 99). Other amendments, which are of a minor, technical or clarifying nature, have not been summarised in the appendix.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the Directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the Directors consider it is in the best of interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

A copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will be available for inspection on the Company's website, **www.aberdeensmallercompanies.co.uk**, from the date of the Notice of the Annual General Meeting until the close of the meeting. In the event that the current Coronavirus related restrictions are lifted before the Annual General Meeting, a hard copy of these documents will be available for inspection at Bow Bells House, 1 Bread Street, London EC4M 9HH until the close of the meeting.

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 31,048 Ordinary shares, representing 0.1% of the issued Ordinary share capital of the Company.

By order of the Board

Robert Lister,
Chairman
10 March 2021

Corporate Governance Report

Compliance
The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the UK Corporate Governance Code (the "UK Code") published in 2018 which is available on the Financial Reporting Council's website: **www.frc.org.uk**.

Additionally, the Company is a member of the Association of Investment Companies ("AIC") which has its own Code of Corporate Governance, published in 2019 (the "AIC Code"), that seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: **www.theaic.co.uk**.

The Board confirms that, during the year to 31 December 2020, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below:

1. the role of the chief executive (UK Code provision 14);
2. the role of the Senior Independent Director (UK Code provision 12)
3. executive Directors' remuneration (UK Code provision 40).

For the reasons set out in the AIC Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. The full text of the Company's Corporate Governance Statement can be found on the Company's website: **www.aberdeensmallercompanies.co.uk**.

The Board
The Board consists currently of four non-executive Directors. There were no changes in the Board of Directors during the year to 31 December 2020.

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

Biographies of the Directors appear on page 40 which demonstrate the wide range of skills and experience each brings to the Board. No Director has a service contract with the Company. Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director. There were no contracts during, or at the end of the year, in which any Director was interested.

The Board has a formal schedule of matters specifically reserved to it for decision including strategy, dividend policy, gearing policy, review of the Manager and corporate governance matters. The Company's investment portfolio is managed within guidelines set by the Board as detailed on page 20.

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

Meetings
The Board normally meets at least five times a year, and more frequently where business needs require. At each meeting the Board reviews the following:

- Reports from the Manager covering stockmarket environment, portfolio activites, performance and investment outlook;
- Company financial information including revenue forecasts, balance sheet and gearing position;
- Shareholder analysis and relations;
- Regulatory issues and industry matters;
- Reports from other service providers such as brokers and registrars.

The following table sets out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2020 (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
D. Fletcher	5 (5)	2 (2)	1 (1)	1 (1)
D. Kershaw	5 (5)	2 (2)	1 (1)	1 (1)
R. Lister[1]	5 (5)	2 (2)	1 (1)	1 (1)
B. Rose	4 (5)	1 (2)	1 (1)	1 (1)

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

Director's Interests

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

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

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

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

Board Committees

The Board has appointed three Committees with specific operations as set out below. The terms of reference, which clearly define the responsibilities and duties of each Committee, are available on the Company's website.

The terms of reference of each of the Committees are reviewed by the Board for their adequacy on an ongoing basis.

Audit Committee

The Audit Committee's Report is contained on pages 47 to 49.

Management Engagement Committee

The Board has a good working relationship with the Manager and continually reviews the policies and performance of the Manager. The Management Engagement Committee, which comprises all Directors, undertakes a formal annual review of the performance of the Manager, which encompasses the investment management of the Company's portfolio and provision of administration and other services. The terms of the management agreement, including the level of the fee and notice period, are covered within this review.

The Board considers the continuing appointment of the Manager, on the terms agreed, to be in the interests of shareholders and is satisfied with the current terms of that appointment.

Nomination Committee

The Nomination Committee, which comprises all Directors, reviews Director appraisals, succession planning, new appointments and training. Appointments of new Directors are undertaken following a thorough and open process involving professional recruitment consultants and interviews with the candidates identified. New appointments are identified against the requirements of the Company's business and the need to have a balanced Board with the best range of experience, skills, length of service and backgrounds, including gender.

Appointments are made on merit, taking into account the benefits of diversity, including gender. The Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board, therefore, has not set any measurable targets in relation to the diversity of the Board.

The Board takes the view that independence is not compromised by length of service and that the Company benefits from a balance of Board members with different tenures. The Board is mindful of the importance of having a suitable mapped board succession and renewal process and has established a succession plan for changes to the Board over the next one to two years. It is the Board's intention to make two new Board appointment during the course of 2021 in anticipation of the retirement of Barry Rose and Robert Lister.

The Board conforms to the AIC code on tenure. Directors serve broadly for up to three three-year terms but are subject to re-election at the AGM annually. The Chair may serve for longer than nine years on the Board, should the Directors believe that this is in the interest of the Trust. The reasons for extension beyond nine years will be explained both in the Annual Report and at the AGM.

Performance Evaluation

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

Corporate Governance Report Continued

The review process carried out in respect of the year ended 31 December 2020 concluded that the Board is functioning well and operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company. There were no issues of concern.

The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Manager.

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

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

Relations with Shareholders

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

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

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

Environmental, Social and Governance ("ESG") Investing

Details of the Manager's ESG engagement is provided on pages 17 to 19.

The UK Stewardship Code and Proxy Voting

The Company supports the UK's Stewardship Code, and seeks to play its role in supporting good stewardship of the companies in which it invests. Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

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

The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Trust's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.

Report of the Audit Committee

The Audit Committee ("the Committee") presents its Report for the year ended 31 December 2020.

Committee Composition

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

- to review the annual and half yearly financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements;
- to assess whether the annual report and financial statements, taken as a whole, is fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to review the effectiveness of the internal control and risk management systems on which the Company is reliant and to consider annually the need for the Company to have its own internal audit function;
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible wrong-doings in matters of financial reporting or other matters;
- to consider the appointment, reappointment, remuneration and terms of engagement of the external auditor;
- to review annually the external auditor's independence, objectivity, effectiveness, resources and qualification; and
- to develop and implement a policy on the engagement of the external auditor to supply non-audit services. There were no non-audit fees paid to the Auditor during the year ended 31 December 2020.

Activities During the Year

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

Review of Risks and Internal Control Systems

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

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

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

In addition, the Board has adopted its own risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers (see pages 21 to 23). A monitoring system is undertaken whereby the controls to mitigate these risks, and the impact of the residual risks, are assessed on a regular basis. The risk matrix is reviewed formally on a six monthly basis in order to identify emerging risks which may arise.

Report of the Audit Committee Continued

Note 18 to the financial statements provides further information on financial risks. The key components designed to provide effective internal control are outlined below:

- the Manager prepares monthly forecasts and management accounts, covering investment activities and financial matters, which allow the Board to assess the Company's activities and review its performance;
- The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, to whom it has delegated the Trust's day to day operations, has decided to place reliance on the Manager's risk management systems and internal audit procedures;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers and assurance reports on internal controls for service organisations are provided to the Committee . In addition the Manager's internal audit, risk and compliance departments undertakes regular reviews of the Manager's operations and provides reports to the Committee on a six-monthly basis. The Committee has meetings, at least annually, with a senior member of the Manager's internal audit team; and
- an independent depositary, BNP Paribas Securities Services, London Branch, has been appointed to safeguard the Company's investments, which are registered in the name of the depositary's nominee company.

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

Significant Accounting Issues

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

Other Accounting Issues

Other accounting issues considered by the Committee included:

- Recognition of Investment Income. The recognition of investment income is undertaken in accordance with the stated accounting policies. The Board reviews the Company's income, including the treatment of special dividends, and revenue forecasts.
- Investment Trust Status. Approval of the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1 January 2012 has been obtained and on-going compliance with the eligibility criteria is monitored on a regular basis.
- Consideration of the Company to continue as a going concern is provided on page 41.

Review of Auditor

Ernst & Young LLP were appointed as the Company's auditor with effect from 28 April 2017. The Committee has reviewed and is satisfied with the independence and the effectiveness of the auditor, Ernst & Young LLP ("EY"), as follows:

- The auditor reports on an annual basis the steps it takes to ensure its independence and objectivity and confirms that it has complied with the relevant UK independence guidelines. The level of non-audit services provided by the auditor is assessed by the Committee to take account of the requirement to maintain the independence of auditors.

- The Committee considers the experience, continuity and tenure of the audit team, including the audit partner. The audit team consists of suitably experienced staff with knowledge of the investment trust sector and there is a process in place for the rotation of the audit partner. The current senior statutory auditor, Caroline Mercer, has served 4 years (including the 2020 year end).

- The Committee assesses the level of audit service annually. The audit plan is reviewed well in advance and subsequent audit findings are reported comprehensively in a timely manner and are resolved satisfactorily. The auditor has a constructive working relationship with both the Board and the Manager.

Due to the increase in regulations and statutory disclosures required by listed companies, the level of audit fees within the investment trust industry has risen quite significantly over recent years. During the year the Committee engaged with EY to review the level of their fees, taking into account these factors and have agreed a transitional increase in their fees of £32,000 for their 2020 audit and £36,000 for their 2021 audit. Further discussions on fees for future years will be undertaken.

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

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

David Fletcher,
Chairman of the Audit Committee,
10 March 2021

Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting in June 2020;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

The law requires the Company's auditor to audit certain of the disclosures provided in the Remuneration Report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included on pages 56 to 62.

Remuneration Policy

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

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

Aggregate Fees

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

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

	1 January 2021 £	1 January 2020 £
Chairman	36,000	36,000
Chairman of Audit Committee	30,000	30,000
Director	25,500	25,500

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

Appointment

- The Company only intends to appoint non-executive Directors.
- All non-executive Directors are appointed under the terms of letters of appointment.
- Directors must retire and be subject to election at the first Annual General Meeting after their appointment, and to re-election annually thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £25,500).
- No incentive or introductory fees will be paid to encourage a directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.
- The Directors are entitled to be re-imbursed for out of pocket expenses incurred in connection with performing their duties including travel expenses.

Performance, Service Contracts, Compensation and Loss of Office

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

- No Director is entitled to any other monetary payment or any assets of the Company.

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

Implementation Report

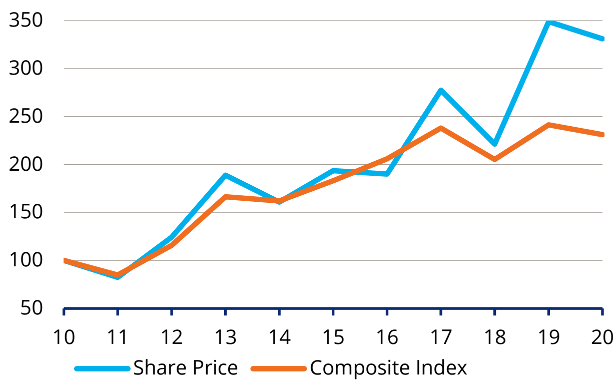
Directors' Fees

The Board carried out a review of the level of Directors' fees during the year and concluded that they should remain at the same levels as shown in the table above. The last increase in fees was effective from 1 January 2020. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

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

Company Performance

The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the Composite Index for the ten year period to 31 December 2020 (rebased to 100 at 31 December 2010). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 26 June 2020, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2019. 95.7% of proxy votes were in favour of the resolution, 2.5% were against, and 1.8% abstained. Shareholders also approved the Directors' Remuneration Policy with 95.2% of proxy votes in favour of the resolution, 3.5% against and 1.3% abstained.

A resolution to receive and adopt the Director's Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2020 will be proposed at the AGM.

Spend on Pay

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

Fees payable (audited)

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

Fees are pro-rated where a change takes place during a financial year. Of the fees disclosed, £Nil (2019: £19,875) was payable to a third party, Stonehage Fleming, in respect of making available the services of David Fletcher.

	2020 £	2019 £
Robert Lister	36,000	34,500
David Fletcher	30,000	26,500
Dagmar Kent Kershaw	25,500	23,000
Barry Rose	25,500	23,000
Total	**117,000**	**107,000**

Expenditure by the Company on Remuneration and Distributions to Shareholders

	2020 £	2019 £
Remuneration paid to all Directors	117,000	107,000
Distribution to shareholders - by way of dividend[1]	1,820,000	1,825,000

[1]See note 8 on page 72 for further details

Annual Percentage Change in Directors' Remuneration

The following table sets out the annual percentage change in Directors' fees for the year to 31 December 2020.

Robert Lister	4.3%
David Fletcher	13.2%
Dagmar Kent Kershaw	10.9%
Barry Rose	10.9%

Directors’ Remuneration Report Continued

Prior to the increase in fees from 1 January 2020, the last increase in directors’ fees was on 1 January 2014.

Directors’ Interests in the Company (audited)

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 31 December 2020 and 31 December 2019 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table provided.

	31 Dec 2020 Ord 50p	31 Dec 2019 Ord 50p
Robert Lister	5,200	5,200
David Fletcher	11,612	11,186
Dagmar Kent Kershaw	9,102	8,917
Barry Rose	5,000	5,000

Since the year end Mr Fletcher and Mrs Kent Kershaw purchased 77 and 57 shares respectively through dividend re-investment schemes. There have been no other changes to the Directors’ interests in the share capital of the Company since the year end and up to the date of this Report. No Director had an interest in any contracts with the Company during the period or subsequently.

Annual Statement

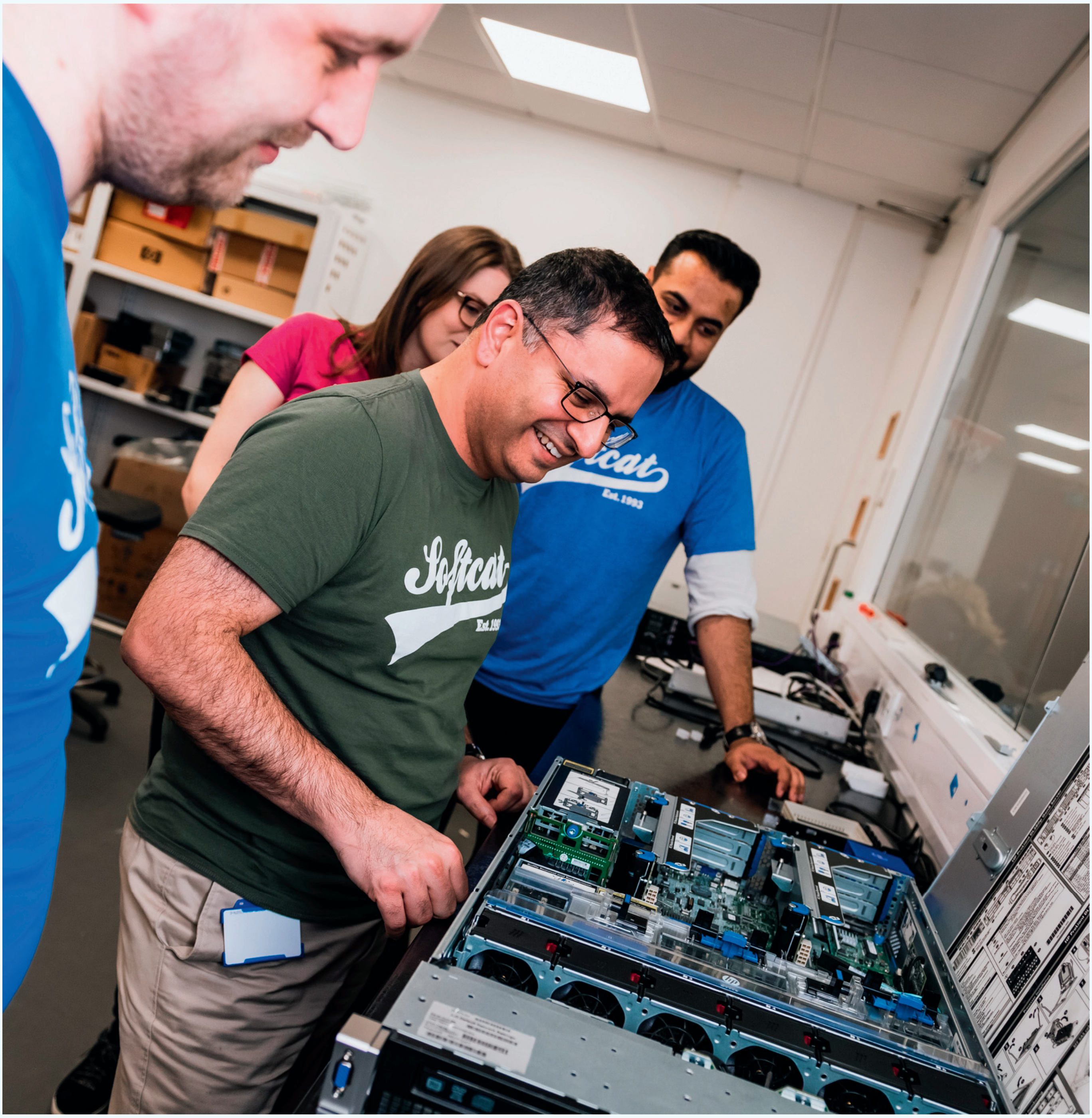
On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Policy and Policy Implementation summarises, as applicable, for the year ended 31 December 2020:

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

Robert Lister
Chairman
10 March 2021

Financial Statements

The Company's revenue return per share decreased over the financial year from 9.98p to 5.60p, reflecting the impact of widespread dividend cuts and cancellations seen across the equity market. The Board considers the generation of income for Shareholders to be a key purpose of the Company, and with the use of its revenue reserves, which have been built up in recent years, the Company has kept the dividend at similar levels to 2019 with the total dividend for the year being 8.24p (2019: 8.25p).



Softcat is a leading UK reseller of IT infrastructure for UK small and medium size businesses and Public Sector organisations in the UK. The company supplies a broad range of hardware, software and accompanying services from datacentre infrastructure through to security software.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Accounting Standards ('IASs') in conformity with the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards ('IASs') in conformity with the Companies Act 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.
- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of Aberdeen Smaller Companies Income Trust PLC

Robert Lister,
Chairman
10 March 2021

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

Opinion

We have audited the financial statements of Aberdeen Smaller Companies Income Trust plc for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of the Company's going concern assessment process and engaged with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.
- We inspected the Directors' assessment of going concern, including the revenue forecast, for the going concern period being the period to 31 December 2022, which is at least 12 months from the date the financial statements were authorised for issue. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- We have reviewed the factors and assumptions, including the impact of the COVID-19 pandemic, as applied to the revenue forecast. We considered the appropriateness of the methods used to calculate the forecast and determined, through testing of the methodology and calculations, that the methods utilised were appropriate to be able to make an assessment for the Company.
- In relation to the Company's borrowing arrangements, we inspected the Directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Company's portfolio. We recalculated the Company's compliance with debt covenants in the scenarios assessed by the Directors and performed reverse stress testing in order to identify what factors would lead to the Company breaching the financial covenants during the going concern period.
- We considered the mitigating factors included in the revenue forecast and covenant calculations that are within control of the Company. This included a review of the Company's assessment of the liquidity of the investments held and evaluating the Company's ability to sell investments in order to repay borrowings or cover the ongoing costs of the Company should revenue decline significantly.
- We reviewed the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period being assessed by the Directors, being the period to 31 December 2022, which is at least 12 months from when the financial statements were authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	· Risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital in the Statement of Comprehensive Income. · Risk of incorrect valuation or ownership of the investment portfolio.
Materiality	· Overall materiality of £0.77m which represents 1% of shareholders' funds.

An overview of the scope of our audit

Tailoring the scope

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

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital in the Statement of Comprehensive Income (as described on page 48 in the Audit Committee's Report and as per the accounting policy set out on page 68). The total revenue for the year to 31 December 2020 was £1.84 million (2019: £2.75 million), consisting primarily of dividend and interest income from listed equity and fixed interest investments, respectively. The Company received six (2019: ten) special dividends of £0.09 million (2019: £0.37 million), which were classified as revenue.	**We performed the following procedures:** We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and classification of special dividends by performing walkthrough procedures. For 100% of dividends received, we recalculated the income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend rate as agreed to an independent data vendor. We agreed a sample to bank statements and, where applicable, we also agreed the exchange rates to an external source. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the entitlement arose prior to 31 December 2020. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the amount receivable and agreed the subsequent cash receipts to post-year end bank statements.	The results of our procedures identified no material misstatements in relation to incomplete or inaccurate revenue recognition, including incorrect classification of special dividends as revenue or capital in the Statement of Comprehensive Income.

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

There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an appropriate accounting treatment. In addition to the above, the Directors may be required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Statement of Comprehensive Income.	For 100% of fixed interest investments, we recalculated the coupon receipts based on the holding at the coupon date and the coupon rate obtained from an external source. We recalculated the fixed interest accrual, ensured that interest accrued evenly throughout the year and that coupon payments were received within the payment terms of each bond. To test completeness of recorded income, we tested that all expected dividends or coupons for each investee company had been recorded as income with reference to investee company announcements obtained from an independent data vendor. We identified the special dividends greater than our testing threshold and assessed the appropriateness of the Company's classification of these special dividends with reference to publicly available information.	
Incorrect valuation or ownership of the investment portfolio (as described on page 48 in the Audit Committee's Report and as per the accounting policy set out on page 68). The valuation of the portfolio at 31 December 2020 was £82.45 million (2019: £88.81 million) consisting of listed equity and fixed income investments. The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of listed investments is determined using quoted market bid prices at close of business on the reporting date.	**We performed the following procedures:** We obtained an understanding of the Administrator's processes surrounding the existence and pricing of listed securities by performing walkthrough procedures. For all investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year end. We inspected the stale pricing reports produced by the Administrator to identify prices that have not changed and verified whether the listed price is a valid fair value. We did not identify any investments with stale pricing. We compared the Company's investment holdings at 31 December 2020 to an independent confirmation received directly from the Company's Depositary.	The results of our procedures identified no material misstatements in relation to incorrect valuation or ownership of the investment portfolio.

In the prior year, our auditor's report included a key audit matter in relation to the 'Risk that the going concern assumption is incorrectly applied'. The application of the going concern assumption continues to be relevant to our audit of the Company and we considered this as part of our overall work on going concern which is set out under 'Conclusions relating to going concern'.

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

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

We determined materiality for the Company to be £0.77 million (2019: £0.83 million), which is 1% (2019: 1%) of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £0.58m (2019: £0.62m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company, we also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.06 million (2019: £0.11 million), being 5% of the revenue column profit before taxation.

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.04m (2019: £0.04m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement
The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 41;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 25;
- Directors' statement on fair, balanced and understandable set out on page 55;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 21 to 23;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 75; and;
- The section describing the work of the Audit Committee set out on pages 47-49.

Responsibilities of Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are International Accounting Standards (IAS) in conformity with the Companies Act, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary, and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition, through incorrect classification of special dividends as revenue or capital in the Statement of Comprehensive Income. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- The Company operates in the wealth and asset management industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities to identify non-compliance with the applicable laws and regulations.

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

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company on 28 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2017 to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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

Use of our report

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

Caroline Mercer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
10 March 2021

Notes:

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

Statement of Comprehensive Income

		Year ended 31 December 2020			Year ended 31 December 2019		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	10	–	(4,361)	(4,361)	–	19,661	19,661
Currency losses		–	–	–	–	(12)	(12)
Income	3						
Dividend income		1,766	–	1,766	2,700	–	2,700
Interest income from investments		73	–	73	46	–	46
Other income		2	–	2	8	–	8
		1,841	(4,361)	(2,520)	2,754	19,649	22,403
Expenses							
Investment management fee	4	(158)	(369)	(527)	(163)	(380)	(543)
Other administrative expenses	5	(382)	–	(382)	(314)	–	(314)
Finance costs	6	(55)	(128)	(183)	(61)	(142)	(203)
Profit/(loss) before tax		1,246	(4,858)	(3,612)	2,216	19,127	21,343
Taxation	7	(8)	–	(8)	(10)	–	(10)
Profit/(loss) attributable to equity holders	9	**1,238**	**(4,858)**	**(3,620)**	**2,206**	**19,127**	**21,333**
Return per Ordinary share (pence)	9	**5.60**	**(21.97)**	**(16.37)**	**9.98**	**86.51**	**96.49**

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

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

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

All items in the above statement derive from continuing operations.

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

Balance Sheet

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Non-current assets			
Equities		80,354	87,930
Corporate bonds		2,100	878
Securities at fair value	10	82,454	88,808
Current assets			
Cash and cash equivalents		1,615	780
Other receivables	11	320	294
		1,935	1,074
Current liabilities			
Bank loan	12	(2,000)	(2,000)
Trade and other payables	12	(254)	(235)
		(2,254)	(2,235)
Net current liabilities		(319)	(1,161)
Total assets less current liabilities		82,135	87,647
Non-current liabilities			
Bank loan	13	(4,991)	(4,987)
Net assets		**77,144**	**82,660**
Share capital and reserves			
Called-up share capital	15	11,055	11,055
Share premium account		11,892	11,892
Capital redemption reserve		2,032	2,032
Capital reserve		49,228	54,086
Revenue reserve		2,937	3,595
Equity shareholders' funds		**77,144**	**82,660**
Net asset value per Ordinary share (pence)	16	**348.91**	**373.86**

The financial statements were approved by the Board of Directors and authorised for issue on 10 March 2021 and were signed on its behalf by:

R. Lister
Chairman

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

Statement of Changes in Equity

Year ended 31 December 2020

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2019		11,055	11,892	2,032	54,086	3,595	82,660
(Loss)/profit for the year		–	–	–	(4,858)	1,238	(3,620)
Dividends paid in the year	8	–	–	–	–	(1,896)	(1,896)
As at 31 December 2020		**11,055**	**11,892**	**2,032**	**49,228**	**2,937**	**77,144**

Year ended 31 December 2019

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2018		11,055	11,892	2,032	34,959	3,114	63,052
Profit for the year		–	–	–	19,127	2,206	21,333
Dividends paid in the year	8	–	–	–	–	(1,725)	(1,725)
As at 31 December 2019		**11,055**	**11,892**	**2,032**	**54,086**	**3,595**	**82,660**

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

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

Cash Flow Statement

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities			
Dividend income received		1,757	2,730
Interest income received		73	47
Other income received		2	8
Investment management fee paid		(533)	(523)
Other cash expenses		(358)	(308)
Cash generated from operations		941	1,954
Interest paid		(177)	(194)
Overseas taxation suffered		(26)	(10)
Net cash inflows from operating activities		738	1,750
Cash flows from investing activities			
Purchases of investments		(21,204)	(23,291)
Sales of investments		23,197	20,987
Net cash inflow/(outflow) from investing activities		1,993	(2,304)
Cash flows from financing activities			
Equity dividends paid	8	(1,896)	(1,725)
Net cash outflow from financing activities		(1,896)	(1,725)
Net increase/(decrease) in cash and cash equivalents		**835**	**(2,279)**
Analysis of changes in cash and cash equivalents during the year			
Opening balance		780	3,071
Currency losses		–	(12)
Increase/(decrease) in cash and cash equivalents as above		835	(2,279)
Closing balances		**1,615**	**780**

Notes to the Financial Statements

For the year ended 31 December 2020

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

2. **Accounting policies**

   (a) Basis of accounting. The financial statements of the Company have been prepared in accordance with International Accounting Standards (IASs) in conformity with the Companies Act 2006.

   The Company's assets consist substantially of equity shares in companies listed on recognised stock exchanges and in most circumstances are realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan which expires in 2023 and a revolver £5 million loan which expires in April 2021. A replacement option for the revolver element of the facility is currently being sought or should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of investments sales as required. The Company undertakes a continuation vote every five years. The last continuation vote was passed at the AGM held in June 2020 with 99.7% of votes in favour. Having taken these factors into account as well as the impact of Covid-19 and having assessed the principal risks and other matters set out in the Viability Statement on page 25, the Directors believe that, after making enquiries, the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period until at least 31 December 2022. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

   The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued in October 2019 to the extent that it is consistent with IASs.

   Significant accounting judgements, estimates and assumptions. The preparation of financial statements requires the use of certain significant accounting judgements, estimates and assumptions which requires management to exercise its judgement in the process of applying the accounting policies and are continually evaluated. The area requiring most significant judgement and assumption in the financial statements is the determination of the fair value hierarchy classification of quoted bonds which have been assessed as being Level 2 as they don't trade actively. Another area of judgement includes the assessment of whether special dividends should be allocated to revenue or capital based on their individual merits. The Directors do not consider there to be any significant estimates within the financial statements.

   New and amended accounting standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2020:

   – IAS 1 and IAS 8 Amendments: Definition of Material
   – IFRS 9, IAS 39 and IFRS 7 Amendments: Interest Rate Benchmark Reform

   Future amendments to standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2021:

   – IAS 39, IFRS 4, 7, 9 and 16 Amendments: Interest Rate Benchmark Reform

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

Notes to the Financial Statements Continued

(b) Investments. The Company has adopted the classification and measurement provisions of IFRS 9 'Financial Instruments'.

The Company classifies its equity investments and debt instruments based on their contractual cash flow characteristics and the Company's business model for managing the assets. Equity investments fail the contractual cash flows test so are measured at fair value. For debt instruments, the business model is the determining feature and they are managed, performance monitored and risk evaluated, on a fair value basis. The Manager is also compensated based on the fair value of the Company's assets. Consequently, all investments are measured at fair value through profit or loss.

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

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

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

Interest from debt securities, and income from preference shares which do not have a discretionary dividend are accounted for on an accruals basis. Any write-off of the premium or discount on acquisition as a result of using this basis is allocated against the revenue reserve. The SORP recommends that such a write-off should be allocated against revenue. In the prior year, the premium or discount was allocated to capital.

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

(d) Expenses. All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% to revenue and 70% to capital (2019 – same), in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. This allocation is reviewed on a regular basis.

(e) Cash and cash equivalents. Cash comprises cash in hand and demand deposits. Cash equivalents includes bank overdrafts repayable on demand and short term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

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

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

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

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

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

(i) **Nature and purpose of reserves**

Share premium account. The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising Ordinary shares of 50p per share. This reserve is not distributable.

Capital redemption reserve. The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital. This reserve is not distributable.

Capital reserve. This reserve reflects any gains or losses on investments realised in the period along with any increases and decreases in the fair value of investments held that have been recognised in the Statement of Comprehensive Income. These include gains and losses from foreign currency exchange differences. Additionally, expenses, including finance costs, are charged to this reserve in accordance with (d) above. This reserve is not distributable except for the purpose of funding share buybacks to the extent that gains are deemed realised.

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

(j) **Dividends payable**. Interim dividends are recognised in the financial statements in the period in which they are paid.

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

3. Income

	2020 £'000	2019 £'000
Income from investments		
Dividend income from UK equity securities	1,295	2,086
Dividend income from overseas equity securities	271	355
Property income distributions	200	259
	1,766	2,700
Interest income from investments	73	46
	1,839	2,746
Other income		
Bank interest	2	8
Total revenue income	**1,841**	**2,754**

Overview
Strategic Report
Portfolio
Governance
Financial Statements
Corporate Information
General

Notes to the Financial Statements Continued

4. Management fee

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	**158**	**369**	**527**	**163**	**380**	**543**

For the years ended 31 December 2020 and 31 December 2019 management services were provided by Aberdeen Standard Fund Managers Limited ("ASFML"). The management fee was calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. The balance due to ASFML at the year end was £94,000 (2019 – £100,000). The fee is allocated 30% (2019 – 30%) to revenue and 70% (2019 – 70%) to capital.

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

5. Other administrative expenses

	2020 £'000	2019 £'000
Directors' fees	117	107
Auditor's remuneration:		
– fees payable for the audit of the annual accounts	32	24
Promotional activities	44	39
Legal and professional fees	23	(11)
Registrars' fees	21	15
Printing and postage	22	19
Broker fees	36	36
Directors' & Officers' liability insurance	7	7
Trade subscriptions	27	27
Other expenses	53	51
	382	**314**

Expenses of £44,000 (2019 – £39,000) were paid to ASFML in respect of the promotion of the Company. The balance outstanding at the year end was £22,000 (2019 – £33,000).

All of the expenses above, with the exception of the auditor's remuneration, include irrecoverable VAT where applicable. The VAT charged on the auditor's remuneration is included within other expenses. In addition the VAT charged on applicable Directors fees in 2019 is included within other expenses.

6. Finance costs

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loans	**55**	**128**	**183**	**61**	**142**	**203**

7. Taxation

(a) Analysis of charge for the year

	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Overseas withholding tax	8	–	8	10	–	10
Total tax charge for the year	**8**	**–**	**8**	**10**	**–**	**10**

(b) Factors affecting tax charge for the year. The UK corporation tax rate was 19% throughout the year (2019 – 19%). The tax assessed for the year is lower than the corporation tax rate. The differences are explained below:

	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Profit/(loss) before tax	1,246	(4,858)	(3,612)	2,216	19,127	21,343
Taxation of profit/(loss) at the effective standard rate of corporation tax	237	(923)	(686)	421	3,634	4,055
Effects of:						
Non taxable UK dividend income	(246)	–	(246)	(373)	–	(373)
Currency gains	–	–	–	–	2	2
Capital losses/(gains) disallowed for the purposes of corporation tax	–	829	829	–	(3,735)	(3,735)
Non taxable overseas income not subject to tax	(51)	–	(51)	(68)	–	(68)
Excess management expenses not utilised	60	94	154	20	99	119
Irrecoverable overseas withholding tax	8	–	8	10	–	10
Total tax charge for the year	**8**	**–**	**8**	**10**	**–**	**10**

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

At the period end, after offset against income taxable on receipt, there is a potential deferred tax asset of £2,951,000 (2019 – £2,500,000) in relation to surplus management expenses. It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

Notes to the Financial Statements Continued

8. Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for 2019 of 2.40p (2018 – 1.95p) per Ordinary share	531	431
First interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	431
	1,896	**1,725**

The fourth interim dividend of 2020 of 2.06p per share has not been included as a liability in these financial statements.

The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £1,238,000 (2019 – £2,206,000).

	2020 £'000	2019 £'000
First interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 – 1.95p) per Ordinary share	455	431
Fourth interim dividend for 2020 of 2.06p (2019 – 2.40p) per Ordinary share	455	531
	1,820	**1,825**

9. Earnings per Ordinary share

	2020 p	2019 p
Revenue return	5.60	9.98
Capital return	(21.97)	86.51
Net return	**(16.37)**	**96.49**

The returns per share are based on the following figures:

	2020 £'000	2019 £'000
Revenue return	1,238	2,206
Capital return	(4,858)	19,127
Net return	**(3,620)**	**21,333**
Weighted average number of Ordinary shares in issue	**22,109,765**	**22,109,765**

10. Non-current assets – securities at fair value

	2020 £'000	2019 £'000
Listed on recognised stock exchanges:		
United Kingdom	80,671	86,060
Overseas	1,783	2,748
	82,454	**88,808**

	2020 £'000	2019 £'000
Opening book cost	56,436	50,945
Investment holdings gains	32,372	15,898
Opening fair value	88,808	66,843
Analysis of transactions made during the year		
Purchases	21,204	23,285
Sales – proceeds	(23,197)	(20,981)
(Losses)/gains on investments	(4,361)	19,661
Closing fair value	**82,454**	**88,808**
Closing book cost	60,215	56,436
Closing investment holdings gains	22,239	32,372
Closing fair value	**82,454**	**88,808**

The Company received £23,197,000 (2019 – £20,981,000) from investments sold in the year. The book cost of these investments when they were purchased were £17,425,000 (2019 – £17,711,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

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

	2020 £'000	2019 £'000
Purchases	74	98
Sales	15	15
	89	**113**

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

Notes to the Financial Statements Continued

11. Other receivables

	2020 £'000	2019 £'000
Accrued income & prepayments	320	294
	320	**294**

None of the above amounts are overdue.

12. Current liabilities

	2020 £'000	2019 £'000
(a) Short-term loan	**2,000**	**2,000**

The Company has in place a £10 million loan facility with Royal Bank of Scotland International Holdings (RBSI) which comprised of two £5 million tranches. Tranche A is a three year £5 million multi-currency revolving credit facility which expires in April 2021. £2 million was drawn down from this facility at 31 December 2020 at a rate of 0.98713% until 27 January 2021 and at the date of this Report £2 million was drawn down at a rate of 0.98471% until 26 March 2021. Tranche B is a five year £5 million fixed rate loan facility and was fully drawn down on 28 April 2018. The interest on Tranche B is fixed at 2.825% per annum payable quarterly in arrears.

The Directors are of the opinion that the fair value of the short term bank loan at 31 December 2020 is not materially different from the book value.

(b) Trade and other payables	2020 £'000	2019 £'000
Investment management fee	94	100
Interest payable	29	27
Sundry creditors	131	108
	254	**235**

13. Non-current liabilities

	2020 £'000	2019 £'000
Fixed rate loan	**4,991**	**4,987**

All financial liabilities are measured at amortised cost. The fair value of the fixed rate loan has been calculated as £5,177,000 (2019 – £5,086,000) and would be classified as a Level 2 liability under Fair Value Hierarchy guidance of IFRS 13 'Fair Value Measurement'.

14. Analysis of changes in financing liabilities during the year. The following table shows the movements during the year of financing liabilities in the Balance Sheet:

	2020 £'000	2019 £'000
Opening balance at 1 January	6,987	6,983
Amortisation of arrangement costs	4	4
Closing balance at 31 December	**6,991**	**6,987**

15. Called-up share capital

	Ordinary shares of 50 pence each	
	Number	£'000
Authorised	**35,000,000**	**17,500**
Allotted and fully paid		
At 31 December 2020 and 31 December 2019	**22,109,765**	**11,055**

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

	2020	2019
Net asset value attributable (£'000)	77,144	82,660
Number of Ordinary shares in issue	22,109,765	22,109,765
Net asset value per share (p)	348.91	373.86

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

The Board has delegated the risk management function to Aberdeen Standard Fund Managers Limited ("the AIFM" or "ASFML") under the terms of its management agreement with ASFML (further details of which are included under note 4). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period.

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

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

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

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

Notes to the Financial Statements Continued

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

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

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

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

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

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

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

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

As at 31 December 2020	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
Assets				
Corporate bonds	25.57	5.02	2,100	–
Cash	–	–	–	1,615
Total assets	–	–	2,100	1,615
Liabilities				
Short-term bank loan	0.07	0.99	(2,000)	–
Fixed rate bank loan	2.32	2.83	(5,000)	–
Total liabilities	–	–	(7,000)	–
Total	**–**	**–**	**(4,900)**	**1,615**

As at 31 December 2019	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
Assets				
Corporate bonds	40.66	5.38	878	–
Cash	–	–	–	780
Total assets	–	–	878	780
Liabilities				
Short-term bank loan	0.08	1.66	(2,000)	–
Fixed rate bank loan	3.32	2.83	(5,000)	–
Total liabilities	–	–	(7,000)	–
Total	**–**	**–**	**(6,122)**	**780**

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

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

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

All financial liabilities are measured at amortised cost.

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

If interest rates had been 25 basis points higher or lower (based on the current parameter used by the Manager's Investment Risk Department on risk assessment) and all other variables were held constant, the Company's revenue return for the year ended 31 December 2020 would decrease/increase by £14,000 (2019 – decrease/increase by £16,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end.

The capital return would decrease/increase by £116,000 (2019 – increase/decrease by £7,000) using VAR ("Value at Risk") analysis based on a 10% shock to interest rates on the fixed interest portfolio positions at each year end.

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

Management of the risk. It is the Company's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process, as detailed on pages 85 and 86, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Kesko, which is traded on the Helsinki Exchange.

Notes to the Financial Statements Continued

Price sensitivity. If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, net capital gains attributable to Ordinary shareholders for the year ended 31 December 2020 would have increased by £8,035,000 (2019 – £8,793,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, net capital gains attributable to Ordinary shareholders for the year ended 31 December 2020 would have decreased by £8,035,000 (2019 – £8,793,000). This is based on the Company's equity investments held at each year end.

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

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

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

At 31 December 2020	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000
Trade and other payables	(254)	–	–	–
Bank loans	(2,000)	–	(5,000)	–
Interest on bank loans	(143)	(141)	(70)	–
	(2,397)	**(141)**	**(5,070)**	**–**

At 31 December 2019	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000
Trade and other payables	(235)	–	–	–
Bank loan	(2,000)	–	–	(5,000)
Interest on bank loans	(141)	(141)	(109)	(70)
	(2,376)	**(141)**	**(109)**	**(5,070)**

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

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

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- investment transactions are carried out on a delivery versus payment basis with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- cash is held only with reputable banks with high quality external credit enhancements.

Overview
Strategic Report
Portfolio
Governance
Financial Statements
Corporate Information
General

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

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

	2020 Balance Sheet £'000	2020 Maximum exposure £'000	2019 Balance Sheet £'000	2019 Maximum exposure £'000
Non-current assets				
Quoted bonds at fair value through profit or loss	2,100	2,100	878	878
Current assets				
Accrued income	320	320	294	294
Cash and cash equivalents	1,615	1,615	780	780
	4,035	**4,035**	**1,952**	**1,952**

None of the Company's financial assets are past due and the application of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

Credit ratings. The table below provides a credit rating profile using Fitch's credit ratings for the quoted bonds at 31 December 2020 and 31 December 2019:

	2020 £'000	2019 £'000
A+	238	–
A–	732	–
BB+	308	–
BBB	364	374
BBB–	458	504
	2,100	**878**

Fair value of financial assets and liabilities. The book value of cash at bank and short–term bank loans and overdrafts included in these financial statements approximate to fair value because of their short–term maturity. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices and have been categorised as Level 1 and Level 2 within the Fair Value Hierarchy table on page 80. For details of bond maturities and interest rates, see page 35. For all other short–term debtors and creditors, their book values approximate to fair values because of their short–term maturity. The fair value of the long–term loan has been calculated at £5,177,000 as at 31 December 2020 (2019 – £5,086,000) compared to an accounts value in the financial statements of £4,991,000 (2019 – £4,987,000) (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency.

Notes to the Financial Statements Continued

Gearing. The Company has in place a £10 million unsecured loan facility of which £7 million has been drawn down. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate. Gearing levels are monitored so that they remain within guidelines set by the Board.

18. Capital enhancement. The SORP recommends that debt securities are accounted for on an effective yield basis with the associated adjustment being allocated to revenue. The Company has allocated this to revenue in the current year, however, in the prior year, the Company decided to allocate this adjustment to capital as explained in note 2(c). The effect of this treatment in the prior year was to decrease revenue and increase capital by £11,000.

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

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

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

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

The financial assets and liabilities measured at fair value in the Balance Sheet are grouped into the fair value hierarchy at 31 December 2020 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	80,354	–	–	80,354
Quoted bonds	b)	–	2,100	–	2,100
Total		**80,354**	**2,100**	**–**	**82,454**

As at 31 December 2019

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	87,930	–	–	87,930
Quoted bonds	b)	–	878	–	878
Total		**87,930**	**878**	**–**	**88,808**

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 actively as Level 1 assets.

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

20. Related party transactions

Directors fees and interests. Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on pages 51 and 52.

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

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

The Company manages its capital, comprising borrowings and share capital and reserves, to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's level of net gearing at the year end was 7.0% (2019 – 7.5%) as defined within the "Alternative Performance Measures" section on page 83.

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

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

– the level of equity shares in issue; and

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

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

The Company does not have any externally imposed capital requirements.

Alternative Performance Measures

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

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

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 December 2020 and 31 December 2019.

2020	Dividend rate	NAV	Share price
31 December 2019	N/A	373.86p	343.00p
2 January 2020	2.40p	374.10p	341.50p
2 April 2020	2.06p	253.97p	216.00p
2 July 2020	2.06p	309.67p	258.00p
8 October 2020	2.06p	320.93p	260.00p
31 December 2020	2.06p	348.91p	313.00p
Total return		**–4.1%**	**–5.1%**

2019	Dividend rate	NAV	Share price
31 December 2018	N/A	285.18p	224.00p
3 January 2019	1.95p	282.14p	225.50p
4 April 2019	1.95p	319.23p	270.50p
4 July 2019	1.95p	334.38p	288.50p
3 October 2019	1.95p	312.35p	273.50p
31 December 2019	N/A	373.86p	343.00p
Total return		**+34.4%**	**57.7%**

Discount to Net Asset Value per Ordinary share. The discount is the amount by which the share price is lower than the net asset value per share, expressed as a percentage of the net asset value.

		2020	2019
NAV per Ordinary share (p)	a	348.9	373.9
Share price (p)	b	313.0	343.0
Discount	**(b-a)/a**	**10.3%**	**8.3%**

Dividend cover. Dividend cover is the revenue return per share divided by dividends per share expressed as a ratio.

		2020	2019
Revenue return per share	a	5.60p	9.98p
Dividends per share	b	8.24p	8.25p
Dividend cover	**a/b**	**0.68**	**1.21**

Net gearing. Net gearing measures the total borrowings of £6,991,000 (31 December 2019 – £6,987,000) less cash and cash equivalents of £1,615,000 (31 December 2019 – £780,000) divided by shareholders' funds of £77,144,000 (31 December 2019 – £82,660,000), expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due to and from brokers at the year end of £nil (2019 – £nil) as well as cash and cash equivalents of £1,615,000 (2019 – £780,000).

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

	2020	2019
Investment management fees (£'000)	527	543
Administrative expenses (£'000)	382	314
Less: non-recurring charges[A] (£'000)	(23)	–
Ongoing charges (£'000)	886	857
Average net assets (£'000)	70,608	71,351
Ongoing charges ratio (excluding look-through costs)	**1.25%**	**1.20%**
Look-through costs[B]	**0.10%**	**0.20%**
Ongoing charges ratio (including look-through costs)	**1.35%**	**1.40%**

[A] Professional services comprising new director recruitment costs and legal fees considered unlikely to recur.
[B] Costs associated with holdings in collective investment schemes as defined by the Committee of European Securities Regulators' guidelines on the methodology for the calculation of the ongoing charges figure, issued on 1 July 2010.

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

Corporate Information

The Company's Investment Manager is a subsidiary of Standard Life Aberdeen plc, whose group companies as at 31 December 2020 had approximately £535 billion of assets under management and administration.

Information about the Manager

Aberdeen Standard Fund Managers Limited

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

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

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

The ASI Smaller Companies team consists of 9 investment professionals all based in Edinburgh; 5 investment managers/analysts, 3 analysts, and 1 quantative analyst who controls the "Matrix".

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

The Investment Team Senior Managers

Abby Glennie (MA Hons) CFA

Abby is Deputy Head of the Smaller Companies Team, with responsibility for research and analysis of UK listed stocks in the Small and Mid cap sectors, and portfolio management in these areas. She has over 12 years of investment management experience and joined ASI in 2013.

Amanda Yeaman (MA Hons) Investment Management Certificate

Amanda is an Investment Manager within ASI Smaller Companies team with responsibility for research and portfolio management within the UK Small and Mid Cap portfolios. She has over 10 years of investment management experience and joined ASI in 2019.

Tzoulianna Leventi (LLM, LLB, BA)

Tzoulianna Investment Analyst within ASI Smaller Companies team with the responsibility for the ESG research and analysis within the UK Small and Mid Cap portfolios. She has over 2 years of investment management experience and joined ASI in 2018.

Investment Process

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

Investment characteristics

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

1. Quality

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

2. Sustainable growth

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

3. Momentum

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

Information about the Manager Continued

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

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

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

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

Investor Information

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

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

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

Aberdeen Standard Investment Trust ISA
An investment of up to £20,000 can be made in the tax year 2021/22.

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

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

Dividend Tax Allowance
The annual tax-free allowance on dividend income is £2,000 for the 2021/21 tax year. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

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

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

Aberdeen Standard Investment Trusts,
PO Box 11020
Chelmsford
Essex CM99 2DB

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

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

Investor Information Continued

Company's Registrars

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

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

Tel: 0371 384 2030.

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

Online Dealing providers and platforms

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company, such as self-invested personal 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, include:

AJ Bell You Invest; Barclays Stockbrokers/Smart Investor; Canaccord Genuity; Charles Stanley Direct; Equiniti; Halifax Share Dealing; Hargreaves Lansdown; iDealing; Interactive Investor; The Share Centre; Stocktrade.

Discretionary Private Client Stockbrokers

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

Financial Advisers

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

Regulation of Stockbrokers

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

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

PRIIPS (Packaged Retail and Insurance-based Investment Products)

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

Key Information Document ("KID")

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

Suitable for Retail/NMPI Status

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

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

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

Investor Warning

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

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

Note

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

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

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

The information on pages 87 to 89 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the FCA.

Glossary of Terms and Conditions

Aberdeen Standard Investments	Aberdeen Standard Investments ("ASI") is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.
ASFML or AIFM or Manager	Aberdeen Standard Fund Managers Limited (ASFML) is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the alternative investment fund manager (AIFM) for the Company. It is authorised and regulated by the Financial Conduct Authority.
AAML or Investment Manager	Aberdeen Asset Managers Limited ("AAML" or "Investment Manager") is a subsidiary company of Standard Life Aberdeen plc which has been delegated responsibility for the Company's day-to-day investment management.
Alternative Performance Measures	An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
AIC	The Association of Investment Companies.
AIFMD or the Directive	The Alternative Investment Fund Managers Directive (AIFMD) is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Benchmark	This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the Numis Smaller Companies excluding Investment Trusts Index (effective from 1 January 2020) and was the FTSE SmallCap (exc Investment Trusts) Index for period up to 31 December 2019. The index averages the performance of a defined selection of listed companies over specific time periods. Performance is measured aganst the Composite Index which is comprised of: Numis Smaller Companies excluding Investment Trusts Index from 1 January 2020 FTSE SmallCap (exc Investment Trusts) Index to 31 December 2019
Closed-End Fund	A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
FCA	Financial Conduct Authority
Investment Trust	A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.

Key Information Document or KID	The Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.
Leverage	For the purposes of the Alternative Investment Fund Managers Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.
Net Asset Value ("NAV")	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Net Gearing/Cash	Net gearing/cash is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage.
Ongoing Charges	Ratio of expenses as percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.
PIDD	The pre-investment disclosure document made available by the AIFM in relation to the Company.
Premium	The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.
Price/Earnings (P/E) Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Standard Life Aberdeen plc or the Group	The Standard Life Aberdeen plc group of companies. Standard Life Aberdeen plc was formed by the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017.
Total Assets	Total Assets as per the balance sheet less current liabilities (before deducting prior charges as defined above).
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

General

Alternative Investment Fund Managers Directive Disclosures (unaudited)

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

There have been no material changes to the disclosures contained within the PIDD since its most recent update in March 2021.

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

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report on pages 20 to 26 , Note 18 to the Financial Statements and the PIDD, together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Aberdeen Standard Fund Managers Limited ("the AIFM");
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretaries, Aberdeen Asset Management PLC on request (see contact details on page 100) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2019 are available on the Company's website.

Leverage

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

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 December 2020	1.16:1	1.18:1

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

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Aberdeen Smaller Companies Income Trust PLC (the "Company") will be held at the offices of Aberdeen Standard Investments, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Wednesday 28 April 2021 at 9.00 am to transact the following business:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 9 inclusive will be proposed as ordinary resolutions and resolutions 10 to 12 will be proposed as special resolutions:

Ordinary Business

1. To receive the reports of the Directors and auditor and the audited financial statements for the year ended 31 December 2020.
2. To receive and adopt the Directors' Remuneration Report (except the Directors' Remuneration Policy) for the year ended 31 December 2020.
3. To re-elect Robert Lister as a Director of the Company.
4. To re-elect David Fletcher as a Director of the Company.
5. To re-elect Dagmar Kent Kershaw as a Director of the Company.
6. To re-elect Barry Rose as a Director of the Company.
7. To re-appoint Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
8. To authorise the Directors to determine the remuneration of the auditor for the year ended 31 December 2021.

Special Business

9. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,960, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

10. That, subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power: -

    (i) expires on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and;

    (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to 10% of the Ordinary shares in issue.

    This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting" were omitted.

11. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with Section 701 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:
   (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
   (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);
   (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and
   (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 June 2022 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

12. That the Articles of Association produced to the meeting and signed by the chairman of the meeting for the purposes of identification be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association with effect from the conclusion of the meeting.

By order of the Board
Aberdeen Asset Management PLC
Secretary
25 March 2021

Registered office:
1 George Street
Edinburgh EH2 2LL

NOTES:

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.
2. A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Freepost RTHJ-CLLL-KBKU, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 8LU so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.
3. The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the

Notice of Annual General Meeting Continued

CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. As an alternative to appointing a proxy using the form of proxy or CREST, members can appoint a proxy online at www.sharevote.co.uk. In order to appoint a proxy using this website, members will need their Voting ID, Task ID and Shareholder Reference Number, printed on the face of the accompanying form of proxy. Full details of the procedures are given on the website. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk using their user ID and password. Once logged in click "View" on the "My Investments" page, click on the link to vote and then follow the on screen instructions.
8. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
9. The right to vote at a meeting is determined by reference to the Company's register of members at 6.30pm two business days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.
10. As at close of business on 17 March 2021 (being the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 17 March 2021 is 22,109,765.
11. A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes (i) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.
12. Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
14. No Director has a service contract with the Company. Copies of the Directors' letters of appointment are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the Company's registered office and for 15 minutes prior to, and at, the meeting.

15. Information regarding the Annual General Meeting is available from the Company's website; **www.aberdeensmallercompanies.co.uk**
16. As a member, shareholders have the right to put questions at the meeting relating to business being dealt with at the meeting.
17. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.
18. The full terms of the proposed amendments to the Company's articles of association would have been made available for inspection as required under LR 13.8.10R (2) but for the Government restrictions, implemented in response to the Coronavirus pandemic. As an alternative, a copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will instead be available for inspection on the Company's website, **www.aberdeensmallercompanies.co.uk**, from the date of the Notice of the Annual General Meeting until the close of the meeting. In the event that the current Coronavirus related restrictions are lifted before the Annual General Meeting, a hard copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will be available for inspection at Bow Bells House, 1 Bread Street, London EC4M 9HH until the close of the meeting.
19. Given the risks posed by the spread of the Coronavirus and in accordance with the provisions of the articles of association and Government guidance, physical attendance at the Annual General Meeting may not be possible. If the law or Government guidance so requires at the time of the meeting, the Chairman will limit, in his/her sole discretion, the number of individuals in attendance at the meeting. Should the Government measures be relaxed by the time of the meeting, the Company may still impose entry restrictions on certain persons wishing to attend the Annual General Meeting in order to ensure the safety of those attending the meeting.

Appendix to the Notice of the Annual General Meeting

Summary of the principal amendments to the Company's articles of association

Set out below is a summary of the principal amendments which will be made to the Company's Existing Articles through the adoption of the New Articles if Resolution 12 to be proposed at the AGM is approved by shareholders.

*This summary is intended only to highlight the principal amendments which are likely to be of interest to shareholders. It is not intended to be comprehensive and cannot be relied upon to identify amendments or issues which may be of interest to all shareholders. This summary is not a substitute for reviewing the full terms of the New Articles which will be available for inspection on the Company's website, **www.aberdeensmallercompanies.co.uk**, from the date of the AGM Notice until the close of the AGM, and will also be available for inspection at the venue of the AGM from 15 minutes before and during the AGM.*

Hybrid/Virtual-only shareholder meetings

The New Articles permit the Company to hold shareholder meetings on a virtual basis, whereby shareholders are not required to attend the meeting in person at a physical location but may instead attend and participate using electronic means. A shareholder meeting may be virtual-only if attendees participate only by way of electronic means, or may be held on a hybrid basis whereby some attendees attend in person at a physical location and others attend remotely using electronic means. This should make it easier for the Company's shareholders to attend shareholder meetings if the Board elects to conduct meetings using electronic means. Amendments have been made throughout the New Articles to facilitate the holding of hybrid or virtual-only shareholder meetings.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the Directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the Directors consider it is in the best of interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

International tax regimes requiring the exchange of information

The Board is proposing to include provisions in the New Articles to provide the Company with the ability to require shareholders to co-operate in respect of the exchange of information to comply with the Company's international tax reporting obligations.

The Hiring Incentives to Restore Employment Act 2010 of the United States of America (commonly known as the Foreign Account Tax Compliance Act) and all associated regulations and official guidance (‘**FATCA**’) imposes a system of information reporting on certain entities including foreign financial institutions such as the Company following the enactment of the UK International Tax Compliance (United States of America) Regulations 2013 on 1st September 2013 (as replaced by the International Tax Compliance Regulations 2015 (the ‘**Regulations**’)).

It is proposed that the Existing Articles will be amended to provide the Company with the ability to require shareholders to co-operate with it so that the Company is able to comply with its obligations under the Regulations in order to avoid being deemed to be a ‘Nonparticipating Financial Institution’ for the purposes of FATCA (and consequently having to pay withholding tax to the US Internal Revenue Service). The Existing Articles will also be amended to ensure that the Company will not be liable for any monies that become subject to a deduction or withholding relating to FATCA, as such liability would be to the detriment of shareholders as a whole.

The Regulations also include the automatic exchange of information regimes brought in by the tax regulation under the OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information (the "**Common Reporting Standard**") which requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As a result, the Company will have to provide information annually to the local tax authority on the tax residency of a number of non-UK based certified shareholders and corporate entities.

Therefore, the Existing Articles will also be amended in order to provide the Company with the ability to require shareholders to co-operate in respect of these broader obligations including its obligations under the Common Reporting Standard and FATCA.

Minor amendments

The Board is also taking the opportunity to make some additional minor or technical amendments to the Existing Articles, including: (i) clarifying that the Board may use the Company's capital reserve for any of the purposes to which sums standing to any revenue reserve may be applied (including to fund dividend payments and share buy backs if the Board believes it is in the best interests of the Company to do so); (ii) the inclusion of a procedure in the event an insufficient number of Directors are re-elected at an annual general meeting of the Company; and (iii) allowing the Company to pay dividends through bank transfers instead of by way of cheques with the further ability to retain cash payments where bank details are not provided by a shareholder. These changes reflect modern best practice and are intended to relieve certain administrative burdens on the Company.

Corporate Information

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

Manager, Secretary and Registered Office
Alternative Investment Fund Manager
Aberdeen Standard Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH
(Authorised and regulated by the Financial Conduct Authority)

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

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

Points of Contact
Manager - Customer Services Department
Telephone: 0808 500 0040
(Lines open 9.00 am to 5.00 pm, Monday to Friday)
Email: inv.trusts@aberdeen-asset.com

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

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

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

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

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

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

United States Internal Revenue Service FATCA Registration Number ("GIIN")
DGR5S1.99999.SL.826

Legal Entity Identifier
213800J6D2TVHRGKBG24

Company Registration Number
SC137448 (Scotland)

Website
www.aberdeensmallercompanies.co.uk

MIX
Paper from responsible sources
FSC® C005739
FSC
www.fsc.org

Visit us online
aberdeensmallercompanies.co.uk

Aberdeen Standard Investments