Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2013

Contents

Strategic Report

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than that of the Numis Smaller Companies Index (excluding Investment Companies) over the long term.

The Company has appointed Aberforth Partners LLP as the investment managers. Further information can be found on page 22.

Financial Highlights

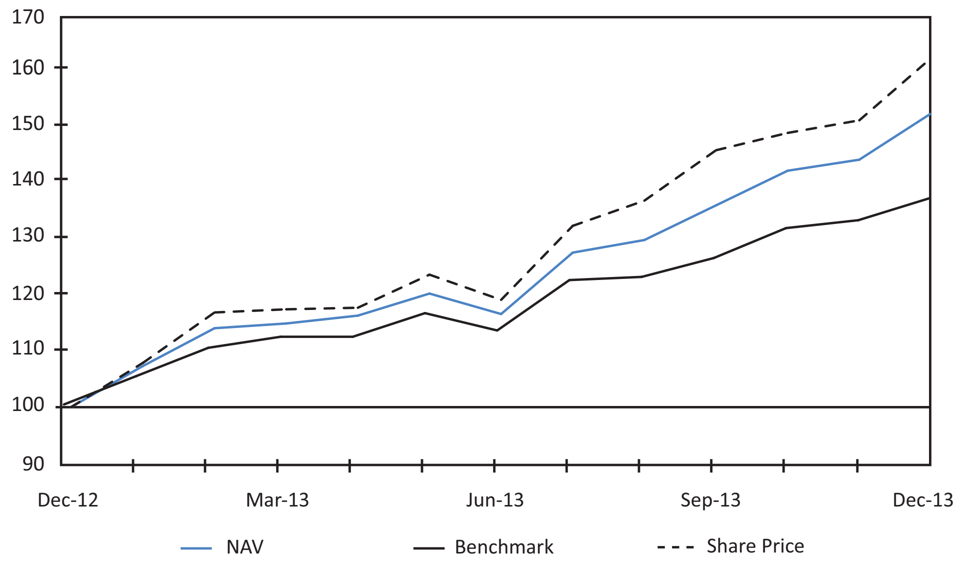
Year to 31 December 2013

Total Return Performance	% change
Net Asset Value	**+52.4**
Numis Smaller Companies Index (excl. Investment Companies)	**+36.9**
Ordinary Share Price (with net dividends reinvested)	**+62.0**

	31 December 2013	31 December 2012	% Change
Shareholders' Funds	**£1,138.1m**	£768.2m	48.2%
Market Capitalisation	**£1,044.4m**	£665.5m	56.9%
Actual Gearing employed	**2.6%**	5.9%	N/A
Ordinary Share net asset value	**1,193.22p**	802.76p	46.1%
Ordinary Share price	**1,095.00p**	695.50p	57.4%
Ordinary Share discount	**8.2%**	13.4%	N/A
Revenue per Ordinary Share	**27.37p**	26.07p	5.0%
Dividends per Ordinary Share	**23.50p**	22.25p	5.6%
Ongoing charges	**0.79%**	0.81%	N/A
Portfolio turnover	**40.1%**	26.2%	N/A

One Year Performance

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2012)



Chairman's Statement

Review of 2013 performance

In last year's Chairman's Statement, I warned that the returns we had enjoyed from smaller companies in 2012 were unlikely to be repeated in 2013. I am delighted to say that this proved wide of the mark. 2013 was another excellent year for UK smaller companies, surpassing the substantial returns in 2012. The FTSE 100 Index gave a total return of 18.7%, while the FTSE All-Share Index, which is heavily weighted towards large companies, gave a return of 20.8%. By comparison, the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)), your Company's benchmark, gave a return of 36.9%. Over the same period, your Company's net asset value total return was 52.4%, while the share price total return was 62.0%.

From a historical perspective, 2013 returns represent the best absolute annual returns achieved by your Company since its inception in 1990. The Managers' Report provides more detail on 2013's performance and, importantly, will put it into a longer term perspective, with regard to the size and style influences that have prevailed since the 2008 crisis.

It would be remiss of me not to re-iterate what I said last year, namely, that returns of this magnitude require a health warning. They are unlikely to be matched in 2014.

Continuation vote

It is your Company's policy to hold a continuation vote every three years. The Annual General Meeting on 27 February 2014 brings the seventh such vote in your Company's history. In performance terms, the three year returns for your Company compared to its benchmark (73.9% vs 61.7%) provide a favourable backdrop to the upcoming vote. That has not always been the case and indeed the future will inevitably involve continuation votes that are set against periods of three year underperformance. All fund managers, including the most talented, experience runs of poor returns. This is why performance needs to be assessed over very long intervals in order to distinguish between luck, whether good or bad, and true investment skill.

This is especially true of value investors. The Managers, Aberforth Partners, have a consistent investment approach based on the value investing style. This can lead to indeterminate periods of underperformance. These periods can be both savage, as was the case during the TMT bubble in the late 1990s, and enduring, as has been the case in the post 2008 financial crisis world. For the value manager, such times represent a clear and present danger. It is during these periods of extreme underperformance that the temptation to become a "little less value" and a "bit more growth" becomes intense. Yielding to temptation would obviously dilute any outperformance as and when value returned to favour as was the case in 2013.

The Managers' consistent investment approach and long run performance record over 23 years, detailed on page 6, are two of the most important facets that your Board has considered in putting forward a recommendation with regard to the continuation vote. Your Board continues to have confidence in the Managers and believes that their niche offering, coupled with a commitment to restrict the business in terms of funds under management, has served Shareholders well over the past 23 years. A well resourced and experienced, but evolving, investment team, which holds a significant stake in your Company, brings additional benefits in the opinion of your Board and avoids some of the "star manager issues" that have characterised the broader fund management industry in recent years. Your Board is therefore recommending that Shareholders vote in favour of your Company's continuation. Your Board intends to do so in respect of their aggregate beneficial holdings of 73,686 Ordinary Shares.

Dividends

In 2013, despite a lacklustre profits backdrop, the dividend experience from investee companies continued to be generally positive. In this context, your Board is pleased to declare a final dividend of 16.15p. This results in total dividends for the year of 23.5p, representing an increase of 5.6% on 2012. Based on the year end share price of 1,095p, your Company's shares deliver a 2.1% yield.

Your Board remains committed to a progressive dividend policy. Your Company's revenue reserves, after adjusting for payment of the final dividend, amount to 36.1p per share (up from 32.1p as at 31 December 2012), and provide a degree of flexibility going forward.

The final dividend, subject to shareholder approval at the 2014 Annual General Meeting, will be paid on 6 March 2014 to Shareholders on the register as at the close of business on 7 February 2014. The ex dividend date is 5 February 2014. Your Company operates a Dividend Reinvestment Plan and details of the plan, including the Form of Election, are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Chairman's Statement

Gearing

It has been your Company's policy to use gearing in a tactical manner throughout its 23 year history. The existing £100m facility with The Royal Bank of Scotland plc has a term expiring in May 2014. As has been the case in the past the facility term dovetails with the three yearly continuation vote cycle. After the Annual General Meeting, and providing the continuation vote is duly passed, your Board and the Managers would seek to put in place a new facility which would continue to provide your Company with access to liquidity for investment purposes and to fund share buy-ins as and when appropriate. In an illiquid, and at times volatile, asset class such as UK smaller companies having access to immediate funds through a credit facility provides the Managers with enhanced flexibility. At the year end, gearing stood at 2.6% of Shareholders' funds. During the year, the level of gearing ranged from 1.7% to 8.0% with an average of 5.4%.

Board Changes

Professor Walter Nimmo, who has been a Director since July 2004, will not be standing for re-election at the forthcoming Annual General Meeting. Walter has been an excellent member of your Board and we will all miss his invaluable contributions. We wish Walter all the very best for the future.

We are delighted to appoint both Julia Le Blan and Paula Hay-Plumb as directors of your Company with effect from 29 January 2014. Both bring a wealth of knowledge of the investment world, including investment trusts, and we look forward to working with them.

Share buy-in

At the Annual General Meeting in March 2013, the authority to buy in up to 14.99% of your Company's Ordinary Shares was approved. During the year, 310,000 Ordinary Shares (0.3% of the Company's issued share capital) were bought in at a total cost of £2.758 million. Consistent with your Board's stated policy, those Ordinary Shares have been cancelled rather than held in Treasury. Once again, your Board will be seeking to renew the buy-in authority at the Annual General Meeting on 27 February 2014.

Regulatory developments

As highlighted previously, your Company is an "Alternative Investment Fund" as defined by the Alternative Investment Fund Managers Directive. Your Board has invited the Managers to act as the "Alternative Investment Fund Manager" for your Company. The various steps to be completed to ensure your Company and the Managers comply with the requirements of the Directive are well underway.

Summary

In my statement last year I drew attention to tentative signs that investors were returning to both value investing and to the smaller constituents of the NSCI (XIC). Those trends remained largely in place through 2013 to the benefit of your Company's absolute and relative performance. Encouragingly, historical data might suggest that such shifts can often persist over several years but, equally importantly, historical data would also suggest 2014 returns will be materially below those achieved in 2013.

Irrespective of what 2014 delivers, your Board continues to have confidence in the value investment style and in the Managers' consistent application of that style to the benefit of Shareholders. That consistency lies at the heart of the excellent long term returns achieved by your Company. Since your Company's formation in 1990, the NSCI (XIC) has risen by 11.8% pa in total return terms. By comparison, your Company's net asset value total return has been 14.8% pa.

Finally, your Board very much welcomes your views and we are always available to talk to Shareholders directly. My email address is noted below.

Professor Paul Marsh
Chairman
28 January 2014
paul.marsh@aberforth.co.uk

Investment Policy and Strategy

Investment Objective

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than that of the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) over the long term.

Investment Policy

The Company aims to achieve its objective by investing in small UK quoted companies. These are companies with a market capitalisation, at time of purchase, equal to or lower than that of the largest company in the bottom 10% of the main UK equity market or companies in the NSCI (XIC). At 1 January 2014 (the date of the last annual index rebalancing), the index included 363 companies, with an aggregate market capitalisation of £163 billion, and its upper market capitalisation limit was £1.503 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities will become candidates for sale.

Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies. The Company may, at time of purchase, invest up to 15% of its assets in any one security. However, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis.

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except where either an investee company moves from the "Main Market" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Main Market" (so as to enable investment before a full listing is obtained). The Company does not invest in any unquoted companies or in any securities issued by investment trusts or investment companies, with the exception of real estate investment trusts that are eligible for inclusion in the NSCI (XIC).

The Managers aim to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company may employ gearing. The Board, in conjunction with the Managers, is responsible for determining the parameters for gearing. When considered appropriate, gearing is used tactically in order to enhance returns. The Company currently has a £100m three year facility in place and the level of gearing has, during 2013, ranged from 1.7% to 8.0%. Further details can be found in note 11 to the Financial Statements.

The Board believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

Investment Strategy

The Managers adhere to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the average valuation metrics of the Company's holdings will usually be on a lower price to valuation metric ratio than those of the NSCI (XIC). While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Managers select companies for the portfolio on the basis of fundamental or "bottom-up" analysis. The disposition of the portfolio by sector is a result of "bottom-up" stock selection, though a "top-down" risk evaluation is undertaken regularly. Analysis involves scrutiny of businesses' financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold when their valuations reach targets determined by the Managers.

In order to improve the odds of achieving the investment objective, the Managers believe that the portfolio must be adequately differentiated from the benchmark index. Therefore, within the diversification parameters described in Investment Policy, the Managers regularly review the level of differentiation, with the aim of maximising the active weight of each holding within the portfolio.

Principal Risks

The Directors have established an on-going process for identifying, evaluating and managing the principal risks faced by the Company. This process was in operation during the year and continues in place up to the date of this report.

Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies. The Company has a diversified portfolio. In addition, the Company has a simple capital structure, invests only in small UK quoted companies and outsources all the main operational activities to recognised, well-established firms.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below:

(i) Investment policy/performance – the performance of the investment portfolio will typically not match the performance of the benchmark and will be influenced by market related risks including market price, interest rate and liquidity (refer to Note 18 for further details). However, the Board's aim is to achieve the investment objective over the long term whilst managing risk by ensuring the investment portfolio is managed appropriately. The Board has outsourced portfolio management to experienced managers and receives regular and detailed reports on investment performance. Peer group performance is also regularly monitored by the Board.

(ii) Share price discount – investment trust shares tend to trade at discounts to their underlying net asset values. The Board and the Managers monitor the discount on a daily basis. Furthermore, the Board intends to continue to use the share buy back facility to seek to sustain as low a discount as seems possible.

(iii) Gearing risk – in rising markets, the effect of borrowings would be beneficial but in falling markets the gearing effect would adversely affect returns to Shareholders. The Board considers the gearing strategy and associated risk on a regular basis.

(iv) Reputational risk – the Board and the Managers monitor external factors affecting the reputation of the Company and take action if appropriate.

(v) Risk appetite – the effect of inappropriate risk appetite or failure to establish an appropriate framework to manage the Company to a desired risk level. The Managers have a clearly defined investment philosophy and they manage a diversified portfolio. The Board continually monitors the Company's performance against the benchmark, and regularly receives a detailed portfolio attribution analysis, including risk measures.

(vi) Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to capital gains tax. The Board receives quarterly compliance reports from the Secretaries to monitor compliance with rules and regulations, together with information on future developments.

In summary, the Board regularly considers the principal risks associated with the Company, the measures in place to monitor them and the possibility of any other risks that may arise.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objective against the following key performance indicators:

- Net asset value total return
- Share price total return
- Performance attribution
- Share price discount to net asset value
- Ongoing charges
- Revenue and dividend position

A record of these measures is shown below. In addition to the above, the Board considers the performance of the Company against its investment trust peer group each day.

Historic Total Returns

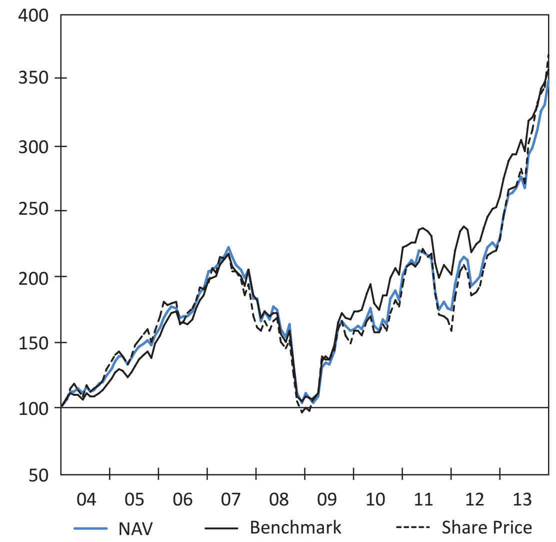
	Discrete Annual Returns (%)		
Period	NAV	Index	Share Price
1 year to 31 December 2013	**52.4**	**36.9**	**62.0**
1 year to 31 December 2012	31.9	29.9	43.9
1 year to 31 December 2011	-13.5	-9.1	-18.5
1 year to 31 December 2010	26.6	28.5	22.8
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2013	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2011	41.8	33.4	52.7	101.0	77.9	133.1
3 years from 31 December 2010	20.2	17.4	23.9	73.9	61.7	90.0
4 years from 31 December 2009	21.8	20.1	23.6	120.1	107.8	133.3
5 years from 31 December 2008	26.0	27.3	30.0	217.8	233.9	271.6
6 years from 31 December 2007	11.5	12.0	14.8	91.8	97.6	129.1
7 years from 31 December 2006	8.0	8.9	9.6	71.9	81.1	89.4
8 years from 31 December 2005	10.2	11.1	10.2	117.1	131.9	117.9
9 years from 31 December 2004	11.7	12.8	11.8	172.6	196.3	172.6
10 years from 31 December 2003	13.3	13.6	13.9	249.1	257.6	268.6
15 years from 31 December 1998	14.9	11.9	16.1	705.4	439.2	837.4
20 years from 31 December 1993	13.1	10.5	12.6	1,068.1	641.5	975.4
23.1 years from inception on 10 December 1990	14.8	11.8	14.4	2,302.6	1,210.5	2,123.4

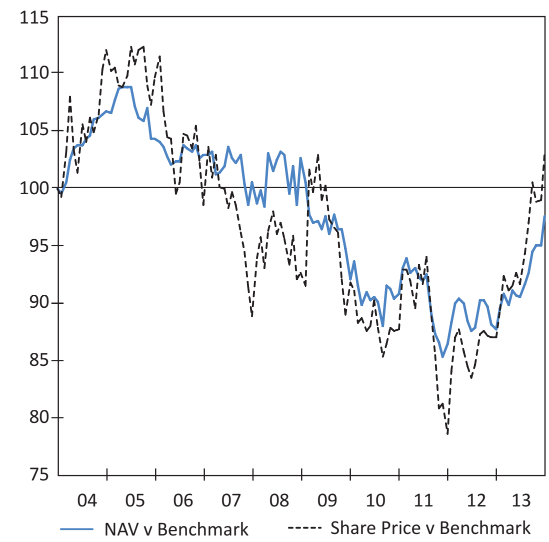
Key Performance Indicators

Ten Year Investment Summary

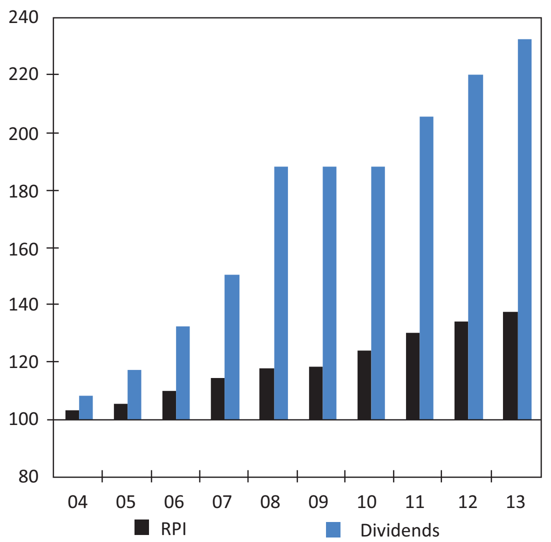
Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2003)



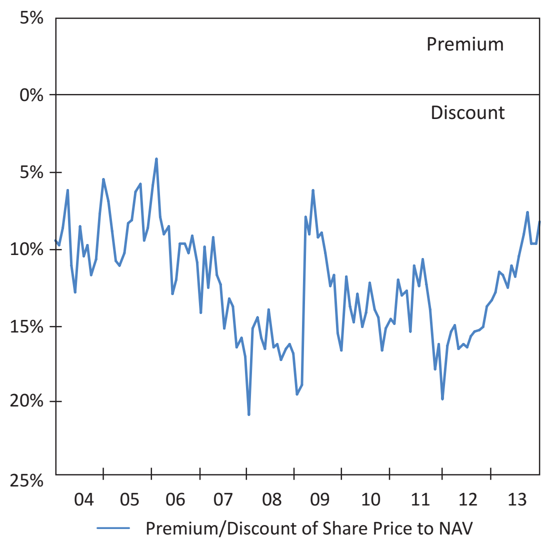
Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2003)



Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2003)



Premium/Discount
(being the difference between Share Price and NAV)



Long-Term Record

Ten Year Capital Summary

As at 31 December	Total assets[5] £m	Borrowings £m	Equity Shareholders' funds £m	Net asset Value per Share[1] p	Share Price p	Discount[2] %
2013	**1,170.1**	**32.0**	**1,138.1**	**1,193.22**	**1,095.00**	**6.7**
2012	814.9	46.7	768.2	802.8	695.50	13.4
2011	671.1	68.0	603.1	627.3	501.00	20.1
2010	768.6	51.8	716.8	743.8	632.50	15.0
2009	635.2	48.3	586.9	605.9	534.00	11.9
2008	465.3	41.2	424.1	437.7	351.25	19.7
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004[3]	547.2	—	547.2	553.7	522.00	5.7
2003[4]	431.5	—	431.5	436.7	395.75	9.4

1 The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 57.

2 The discount calculation is the percentage difference between the Company's Ordinary Share price and the underlying Net Asset Value per Share which includes current year revenues.

3 2004 figures have been restated in line with the restated financial statements for that year.

4 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.

5 Total assets less liabilities excluding borrowings.

Ten Year Revenue Summary

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share[1] p	Dividends per Ordinary Share net p	Ongoing Charges[2] %	Gearing %
2013	**26,146**	**27.37**	**23.50**	**0.79**	**2.6**
2012	25,008	26.07	22.25	0.81	5.9
2011	23,247	24.13	20.75	0.88	11.1
2010	17,512	18.11	19.00	0.85	7.3
2009	16,813	17.35	19.00	0.85	7.7
2008	22,223	22.75	19.00	0.94	9.5
2007	18,158	18.38	15.20	0.86	–
2006	16,209	16.40	13.40	0.97	–
2005	14,325	14.50	11.85	0.99	–
2004[3]	13,085	13.24	11.00	0.99	–
2003[4]	10,026	11.59	10.10	0.98	–

1 The calculation of Revenue per Ordinary Share is based on the revenue from ordinary activities after taxation and the weighted average number of Ordinary Shares in issue.

2 Represents the total cost of investment management fees and other operating expenses as a percentage of the average published net asset value over the period.

3 2004 figures have been restated in line with the financial statements.

4 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.

Managers' Report

Introduction

With an NAV total return in 2013 of 52.4%, ASCoT enjoyed its best ever year of absolute performance since its launch in 1990. This return is analysed in detail in the Investment Performance section of this report, but the principal influences were the general buoyancy of equity markets, the particular strength of small companies and a re-emergence of the value style. In the UK, the FTSE All-Share recorded a total return of 20.8%. Large companies have now exceeded their previous peak levels, set in 2007, in both capital only and total return terms. Small companies, measured by the NSCI (XIC), entered new territory some time ago and in 2013, with a total return of 36.9%, extended their record of out-performance against large companies since the global financial crisis. Indeed, the period since the crisis has witnessed small companies' best five year performance against large companies in ASCoT's history.

The roots of these returns from small companies were in the very low valuations ascribed to riskier assets as they emerged from the recession and global financial crisis. In the immediate aftermath, investors tended to crave certainty and thus eschewed the more illiquid or, what they perceived as, more volatile small companies. The "risk-on, risk-off" phenomenon of recent years acted as a further discouragement. In 2013, impetus was given to the performance of small companies by improving confidence amongst investors, as evidence mounted that the global macro economy is stabilising, if not improving.

The Eurozone stopped getting worse, though the buoyancy of the core at the expense of the periphery continues and thus probably raises the future threat to the integrity of the currency union. In the US, the recovery proceeds, despite the best efforts of the politicians and uncertainty over the "tapering" of quantitative easing. With the US current account deficit showing less inclination to expand than in previous recoveries, China has experienced pressure on its still high growth rates, though there is some optimism that the new leadership regime is determined to effect a rebalancing of the economy towards domestic demand.

The UK's economy confounded the majority of expectations that prevailed at the start of the year. The recovery became more firmly entrenched as the coalition's growth initiatives, together with less difficult export markets, started to take effect. "Help-to-buy" divides opinion but there is little doubt that it is influential, directly on the housing market and indirectly on areas such as general confidence and tax revenues. The concern is that a recovery based on higher lending is ephemeral, so examination of movements in real incomes will intensify in 2014. While interest rates are likely to remain extremely low until 2015, scrutiny of Mark Carney and his own "tapering" tactics will increase over coming months.

The pick-up in confidence arising from improving world economies has, in turn, engendered a willingness among investors to venture into long-neglected parts of the stockmarket, which has been accompanied by a shift in investment style towards the value approach of your Managers. But enthusiasm continues to be tempered by the influence of today's very loose monetary conditions: the extent of the real economy's reliance on quantitative easing and low interest rates is unclear. In an investment world confronted by "tapering", the prevailing mind-set of investors would appear to be that good news, from the perspective of the real economy, is bad news for asset prices. However, with anything approaching a long term investment horizon, should not a normalisation of monetary conditions, associated with an improving economy, be cause for encouragement?

Managers' Report

Investment performance

ASCoT's NAV total return in 2013 was 52.4%, which is the best calendar year result in the trust's history. Gearing, which averaged 5.4% through the year, was helpful, as the table below demonstrates.

For the 12 months ended 31 December 2013	Basis points
Stock selection	1,264
Sector selection	(25)
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 51 basis points)	1,239
Movement in mid to bid price spread	75
Cash/gearing	321
Purchase of ordinary shares	5
Management fee	(91)
Other expenses	(6)
Total attribution based on bid prices	**1,543**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 52.36%; Benchmark Index = 36.93%; difference is 15.43% being 1,543 basis points).

Sectors

The distinction between stock and sector selection shown in the preceding table may give a false impression of your Managers' investment process. The vast majority of companies enter the portfolio through a bottom-up assessment of their individual merits; it is very unusual for top-down considerations to affect the portfolio's profile. However, collections of decisions on individual businesses can result in an exposure of the portfolio to sector themes. At the current time, one such theme would be the portfolio's relatively low weighting in resources. This reflects a concern that the cheap money available to this sector over the past decade and consequent substantial investment has resulted in an imbalance of supply and demand for several commodities. Few company boards within the small company resources arena have as yet woken up to the new environment of greater capital discipline that is exemplified by some of their larger peers. That said, if they do, opportunities may emerge.

With an exposure of 11.4% against 7.8% for the NSCI (XIC), the portfolio's largest over-weight sector position is in Technology. This very much reflects an aggregation of decisions on individual businesses, rather than a particular optimism for spending on technology. In 2013, this positioning was unhelpful to ASCoT's relative return as the market was led by sectors more likely to benefit from a domestic cyclical recovery.

Style

Your Managers' tendency to revisit the influence of investment style is due to their consistent adherence to their value investment philosophy. The stockmarket is more fickle and oscillates between periods of favouring either the growth or the value style. Between the global financial crisis and the beginning of 2013, the growth style was in the ascendancy, as tough economic conditions and heightened uncertainty favoured companies with secular, albeit often modest, growth characteristics. However, the rising confidence of 2013 encouraged a more general re-acquaintance with the cheaper "smaller small" companies that have inhabited ASCoT's portfolio for some time. Aberforth employs two third party style models to gauge style influences on the performance of the NSCI (XIC). These give mixed messages about the precise performance of the value style in 2013. However, your Managers would suggest that the extent of ASCoT's out-performance against the NSCI (XIC) would have been difficult to achieve without a following wind from style.

Strong balance sheets

The national accounts show that the UK corporate sector has been a net saver for over a decade. The global financial crisis and recession only added to the reluctance of boards to utilise their cash and so balance sheets have strengthened significantly over the past five years. Small companies have been part of this trend: one third of Aberforth's tracked universe is represented by companies with net cash on their balance sheets. While cash provides strategic flexibility, it drags down returns on equity, particularly in the present low interest rate environment. Companies with net cash on their balance sheets account for 37% of ASCoT's portfolio. In many cases, cash levels are more than sufficient even in the eventuality of another recession. Your Managers are therefore keen to see more of that financial strength employed. The preference is clearly organic investment. Failing such opportunities, acquisitions might make sense, though only if they compare favourably with the benchmark of low risk returns of cash to shareholders.

De-equitisation

The good performance of small companies in 2013 came despite a dearth of M&A activity. Only five deals within the NSCI (XIC) were completed; of these, ASCoT held one. This was by some distance the quietest year for M&A in ASCoT's history. With balance sheets strong across much of the global corporate landscape and with the valuations of the majority of small companies relatively attractive, the explanation for the lack of M&A probably lies in low levels of confidence around board tables in the early part of the year. However, with confidence now picking up, it is likely that the frequency of M&A will increase in 2014, but then again it can hardly decline.

Though they were deprived of M&A fees, it is difficult to feel too sorry for the investment bankers since the IPO market has been resurgent: 15 IPOs eligible for inclusion in the NSCI (XIC) were completed in 2013. Enthusiasm for these deals was boosted by the desire of investors to increase exposure to the often illiquid part of the stockmarket represented by the NSCI (XIC). Moreover, in the early stages of the IPO market at least, valuations were attractive as vendors had to accept lower prices in order to ensure that the listing would take place. ASCoT participated in four IPOs through 2013, two of which were still in the portfolio at the year end. Experience suggests that such opportunities will become fewer as the IPO market gains momentum.

Dividends

Small companies have not traditionally been the first port of call for income investors, despite income characteristics substantially accounting for the superior total return over the long term of small companies against large. However, it is plausible that a wider recognition of small companies' income credentials has played a role in the particularly strong recent performance of the asset class. At work have been two dynamics. First, the prevailing low interest rate environment has starved the investment world of yield. With extra impetus from quantitative easing, higher yielding assets have attracted the attention of income investors and have seen their yields drop as a result. This phenomenon, dubbed by some "yieldfall", has benefited higher yielding denizens of the NSCI (XIC). Encouraging the process has been the second dynamic: dividend growth, which has averaged close to 10% per annum in the years since the global financial crisis. However, it is important to put this rate of dividend growth in perspective: the base year, 2009, was the worst for small company dividends since 1955.

Band	Nil	Down	Flat	Up	New	Other
No. of holdings	20	8	11	47	3	3

ASCoT's income account has benefited from this rising tide and from special dividends. The most recent dividend experience is shown in the table above, which categorises the portfolio according to each investee company's most recent dividend action. Encouragingly, around half of the holdings raised their dividends. "New" denotes those companies that started paying dividends for the first time or that, having cut to zero, have resumed payments. The "Other" category contains those companies whose most recent dividends have no relevant comparison, such as the two 2013 IPOs. The "Nil" category contains those companies that do not currently pay dividends; it may act as a reminder that ASCoT is not an income fund, though your Managers' value style tends to bring superior income characteristics across the portfolio as a whole. Most of the members of the "Nil" category should be capable of paying dividends over the next few years. As they do, ASCoT should enjoy a boost to its income and the portfolio's average dividend cover, which at 3.2x is the highest in ASCoT's history, will fall closer to the long term 2.4x average.

Managers' Report

Valuations

Characteristics	31 December 2013 ASCoT	31 December 2013 NSCI (XIC)	31 December 2012 ASCoT	31 December 2012 NSCI (XIC)
Number of companies	**92**	**363**	90	389
Weighted average market capitalisation	**£646m**	**£833m**	£511m	£748m
Price earnings ratio (historic)	**13.6x**	**16.8x**	10.5x	12.8x
Dividend yield (historic)	**2.3%**	**2.2%**	3.0%	2.8%
Dividend cover	**3.2x**	**2.7x**	3.1x	2.8x

Small companies experienced a sharp re-rating in 2013. Share prices climbed, but profits across the asset class fell slightly over the year. This disappointing profit performance reflects sluggish macro economic demand conditions in the earlier part of the year and the particular difficulties faced by many of the resources companies in the benchmark. The historic PE of the NSCI (XIC) moved from 12.8x to 16.8x, crossing the average over ASCoT's 23 year history of 13.3x. Therefore, the valuation credentials of small companies, which made them such an attractive asset class in the wake of the global financial crisis, are no longer so compelling. However, there are mitigating factors.

- The stockmarket is forward-looking and, with macro economic demand picking-up and cost bases still lean, the prospects for profit growth in 2014 are good: consensus estimates suggest a 10% increase in profits across the small company universe. Moreover, the weakness of 2013 makes comparisons somewhat easier.

- ASCoT is actively managed and is not condemned to track the NSCI (XIC), something that the experience of recent years amply demonstrates, both on the upside and the downside. Your Managers strive to keep the portfolio different from the benchmark. A statistical measure of this is Active Money, which has been the focus of much academic research in recent years. Active Money is the sum of the differences between the portfolio weight and the benchmark weight for each stock held in the portfolio. Your Managers aim to keep the ratio above 70%. Given this definition of Active Money, it is impossible to reach 100% without holding companies that are not part of the benchmark index. This is a practice that ASCoT has not pursued: it invests in companies that are members of the benchmark or are likely to become members on future rebalancing.

- "Value stretch" is an important concept in a value investment philosophy and may be thought of as the degree to which growth companies are more highly rated than value companies. If the value stretch is wide, then value investors should be presented with an abundance of investment opportunities. As the stockmarket valuations of these opportunities move to reflect more fairly the underlying worth of the companies, the value investor should enjoy good relative performance, other things being equal.

  Your Managers believe that although the value style was helpful in 2013, the value stretch remains at attractive levels. This may be demonstrated in two ways. First, from a historical perspective, the average portfolio PE of 13.6x sits 19% lower than the NSCI (XIC)'s 16.8x. Over ASCoT's history, the average discount has been 10%, which suggests that there remain many attractively valued companies within the investment universe.

2013 EV/EBITA ratio			
34 growth companies	257 other companies	Tracked Universe	ASCoT's portfolio
14.8x	10.8x	11.3x	9.5x

  Second, as demonstrated by the preceding table, forward valuations also demonstrate a significant gap between the valuation of the portfolio and that of small companies as a whole. In comparing the valuations of businesses, your Managers favour the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA), since it is unaffected by balance sheet structure and is also the metric commonly used in M&A situations. The table above shows the 2014 EV/EBITA ratio for four categories of company. The Tracked Universe represents 98% of the NSCI (XIC) by value and comprises the 291 companies that are followed closely by your Managers. These are subdivided into 34 "growth companies" and 257 "other companies". The average EV/EBITA of the former group, which tended to perform well in the aftermath of the global financial crisis, is 37% higher than that of the latter group. The premium of the growth stocks to ASCoT's portfolio is higher, at 56%.

Outlook & conclusion

The improving performance of economies around the world, not least the UK's, has challenged the orthodoxy that dominated financial markets in the aftermath of the global financial crisis. Thus the focus has started to shift from the relative safety of bonds' returns to their skimpiness, and there are indications, albeit not yet "great", of a rotation from bonds into equities. Within equity markets themselves, investors now seem more prepared to explore areas that were overlooked in the aftermath of the global financial crisis. Within the context of the NSCI (XIC), this means that interest has started to broaden from the exclusive cadre of mid caps whose secular growth characteristics or underlying steadiness of business model appealed in a financial world craving certainty. Companies not displaying such "quality" and whose valuations were consequently penalised are now attracting interest, which is to the benefit of the value investment style and therefore to ASCoT.

Given the strength of returns over 2013, it is natural to question the attractiveness of today's valuations. Your Managers take heart from what seems still to be a wide value stretch. Moreover, there is evidence of broader valuation anomalies still in place within the NSCI (XIC). "Smaller small" companies remain more lowly rated than the mid cap components of the index: the weighted average market capitalisation of the highly rated growth companies described in the Valuations section above is £1.2bn, considerably higher than the portfolio's £0.6bn. There is also evidence that the craving for certainty continues to affect the valuations of companies with more volatile share prices: since the global financial crisis, companies with more volatile share prices are valued at a discount to those with lower volatility; prior to 2009, the reverse was the case. This phenomenon represents an opportunity for those funds, such as ASCoT, that are ready and able to adopt a longer term investment horizon.

For these reasons, your Managers are optimistic that the NSCI (XIC) remains set up in a manner that can benefit ASCoT's relative performance. However, as recent years have made all too clear, the absolute returns that ASCoT generates in 2014 and beyond will be heavily influenced by global financial and macro economic factors that can seem very distant from the parochiality of small UK quoted companies. With global debt levels still elevated and the precise effects of quantitative easing difficult to assess, a normalisation of the financial world is not without risk, but your Managers struggle to see "tapering" as anything other than good news for equities in general and the value style in particular over the medium to long term.

The events of the global financial crisis and its aftermath have taught many lessons. Among these, from ASCoT's perspective, it has been shown again that the long term out-performance of the value investment style can come in violent bursts. Determining when the value stretch reaches its limits is difficult – it was easy to miss the opportunities of 2009 or 2013. Your Managers seek to minimise such risk by adhering at all times to their value investment philosophy. This can result in years of poor performance relative to the benchmark index, notably the TMT period and more recently the aftermath of the global financial crisis. However, history suggests that consistent application of such an investment approach does work over time. With its closed end structure and ability to utilise gearing, ASCoT is well placed to exploit shorter term swings in stockmarket sentiment to the benefit of its longer term returns.

Aberforth Partners LLP

Managers

28 January 2014

Thirty Largest Investments

As at 31 December 2013

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	JD Sports Fashion	37,115	3.3	Retailing - sports goods & clothing
2	RPC Group	35,198	3.1	Plastic packaging
3	Northgate	35,035	3.1	Van rental
4	QinetiQ Group	33,893	3.0	R&D and consulting services
5	St. Modwen Properties	28,096	2.5	Property - investment & development
6	CSR	26,498	2.3	Location & connectivity semiconductors
7	Tullett Prebon	25,127	2.2	Interdealer broker
8	e2v technologies	25,099	2.2	Electronic components & subsystems
9	Spirit Pub Company	23,787	2.1	Managed pub operator
10	Vectura Group	23,275	2.0	Inhaled pharmaceuticals - respiratory specialism
	Top Ten Investments	293,123	25.8	
11	Shanks Group	23,270	2.0	Waste services
12	RPS Group	23,016	2.0	Energy & environmental consulting
13	Vesuvius	21,172	1.9	Metal flow engineering
14	Brewin Dolphin Holdings	20,913	1.8	Private client fund manager
15	F&C Asset Management	20,406	1.8	Investment manager
16	Huntsworth	19,349	1.7	Public relations
17	Trinity Mirror	18,635	1.6	UK newspaper publisher
18	Morgan Advanced Materials	18,204	1.6	Manufacture of advanced materials
19	Go-Ahead Group	18,088	1.6	Bus & rail operator
20	FirstGroup	17,377	1.5	Bus & rail operator
	Top Twenty Investments	493,553	43.3	
21	Carillion	16,987	1.5	Construction & support services
22	Grainger	16,809	1.5	Property - residential
23	Bovis Homes Group	16,772	1.5	Housebuilding
24	Kofax	16,604	1.5	Document capture software
25	Unite Group	15,856	1.4	Property - student accommodation
26	WH Smith	15,323	1.3	Newsagents
27	Bodycote	14,777	1.3	Engineering - heat treatment
28	Hansteen Holdings	14,404	1.3	Property - industrial
29	Optos	14,303	1.3	Medical technology - retinal imaging
30	Micro Focus	14,256	1.3	Software - development & testing
	Top Thirty Investments	649,644	57.2	
	Other Investments (64)	517,986	45.4	
	Total Investments	1,167,630	102.6	
	Net Liabilities	(29,505)	(2.6)	
	Total Net Assets	1,138,125	100.0	

Investment Portfolio

As at 31 December 2013

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[1]
Oil & Gas Producers	**44,928**	**3.9**	**3.4**
EnQuest	11,572	1.0	
Hardy Oil & Gas	4,725	0.4	
JKX Oil & Gas	6,240	0.5	
JKX Oil & Gas 8% Conv Bond 2018[1]	405	–	
Petroceltic International	8,815	0.8	
Soco International	13,171	1.2	
Oil Equipment, Services & Distribution	**–**	**–**	**1.6**
Alternative Energy	**–**	**–**	**0.1**
Chemicals	**12,615**	**1.1**	**3.1**
Synthomer	12,615	1.1	
Industrial Metals & Mining	**4,140**	**0.4**	**0.8**
International Ferro Metals	4,140	0.4	
Mining	**23,029**	**2.1**	**3.4**
Anglo Pacific Group	6,415	0.6	
Aquarius Platinum	1,878	0.2	
Centamin	6,471	0.6	
Kenmare Resources	8,121	0.7	
Kenmare Resources Warrants 2019[2]	144	–	
Construction & Materials	**20,325**	**1.8**	**2.9**
Galliford Try	12,153	1.1	
Low & Bonar	8,172	0.7	
Aerospace & Defence	**40,482**	**3.6**	**2.9**
Chemring Group	6,589	0.6	
QinetiQ Group	33,893	3.0	
General Industrials	**56,370**	**5.0**	**1.6**
RPC Group	35,198	3.1	
Vesuvius	21,172	1.9	
Electronic & Electrical Equipment	**61,743**	**5.5**	**4.3**
e2v technologies	25,099	2.2	
HellermannTyton Group	6,326	0.6	
Morgan Advanced Materials	18,204	1.6	
TT electronics	12,114	1.1	
Industrial Engineering	**41,944**	**3.6**	**2.3**
Bodycote	14,777	1.3	
Castings	11,415	1.0	
Hill & Smith Holdings	6,225	0.5	
Vitec Group	9,527	0.8	
Industrial Transportation	**10,146**	**0.9**	**1.6**
Wincanton	10,146	0.9	
Support Services	**175,439**	**15.3**	**12.3**
Acal	6,193	0.5	
Capital Drilling	1,300	0.1	
Carillion	16,987	1.5	
Hogg Robinson Group	6,944	0.6	
Hyder Consulting	9,961	0.9	
Interserve	5,588	0.4	
Lavendon Group	6,351	0.6	

Investment Portfolio

As at 31 December 2013

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[1]
Support Services (continued)			
Management Consulting Group	4,385	0.4	
Northgate	35,035	3.1	
office2office	1,212	0.1	
Robert Walters	13,981	1.2	
RPS Group	23,016	2.0	
Shanks Group	23,270	2.0	
Smiths News	11,230	1.0	
Speedy Hire	9,986	0.9	
Automobiles & Parts	**–**	**–**	**–**
Beverages	**4,580**	**0.4**	**0.8**
Stock Spirits Group	4,580	0.4	
Food Producers	**14,455**	**1.2**	**2.8**
Hilton Food Group	12,921	1.1	
R.E.A. Holdings	1,534	0.1	
Household Goods & Home Construction	**33,651**	**3.0**	**2.4**
Bovis Homes Group	16,772	1.5	
McBride	6,466	0.6	
Redrow	10,413	0.9	
Leisure Goods	**–**	**–**	**0.5**
Personal Goods	**–**	**–**	**1.3**
Health Care Equipment & Services	**14,303**	**1.3**	**1.9**
Optos	14,303	1.3	
Pharmaceuticals & Biotechnology	**23,275**	**2.0**	**1.3**
Vectura Group	23,275	2.0	
Food & Drug Retailers	**–**	**–**	**0.8**
General Retailers	**73,592**	**6.4**	**5.7**
Halfords Group	10,384	0.9	
JD Sports Fashion	37,115	3.3	
Mothercare	10,770	0.9	
WH Smith	15,323	1.3	
Media	**78,555**	**7.0**	**3.5**
Centaur Media	7,417	0.7	
Chime Communications	10,844	1.0	
Future	11,069	1.0	
Huntsworth	19,349	1.7	
Mecom Group	11,241	1.0	
Trinity Mirror	18,635	1.6	
Travel & Leisure	**96,609**	**8.5**	**8.2**
Air Partner	3,549	0.3	
FirstGroup	17,377	1.5	
Flybe Group	7,569	0.7	
Go-Ahead Group	18,088	1.6	
National Express Group	13,862	1.2	
Punch Taverns	4,466	0.4	
Spirit Pub Company	23,787	2.1	
Sportech	7,911	0.7	

Investment Portfolio

As at 31 December 2013

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[1]
Fixed Line Telecommunications	**10,732**	**0.9**	**2.8**
KCOM Group	10,732	0.9	
Electricity	**–**	**–**	**0.6**
Gas, Water & Multiutilities	**–**	**–**	**–**
Banks	**–**	**–**	**0.5**
Nonlife Insurance	**10,223**	**0.9**	**2.7**
Novae Group	10,223	0.9	
Life Insurance	**6,037**	**0.4**	**1.6**
Hansard Global	6,037	0.4	
Real Estate Investment & Services	**71,877**	**6.4**	**6.2**
Assura Group	11,116	1.0	
Grainger	16,809	1.5	
St. Modwen Properties	28,096	2.5	
Unite Group	15,856	1.4	
Real Estate Investment Trusts	**22,758**	**2.0**	**2.8**
Hansteen Holdings	14,404	1.3	
Redefine International	8,354	0.7	
Financial Services	**83,057**	**7.3**	**5.6**
Brewin Dolphin Holdings	20,913	1.8	
Charles Stanley Group	8,700	0.8	
F&C Asset Management	20,406	1.8	
Jupiter Fund Management	7,911	0.7	
Tullett Prebon	25,127	2.2	
Software & Computer Services	**94,459**	**8.4**	**4.9**
Anite	9,876	0.9	
Computacenter	10,316	0.9	
Kofax	16,604	1.5	
Micro Focus	14,256	1.3	
Microgen	8,855	0.8	
Phoenix IT Group	11,619	1.0	
RM	11,117	1.0	
SDL	11,816	1.0	
Technology Hardware & Equipment	**38,306**	**3.3**	**2.8**
CSR	26,498	2.3	
Filtronic	8,029	0.7	
Promethean World	3,779	0.3	
Investments as shown in the Balance Sheet	**1,167,630**	**102.6**	**100.0**
Net Liabilities	(29,505)	(2.6)	–
Total Net Assets	**1,138,125**	**100.0**	**100.0**

1 Convertible Bond is listed on the Luxembourg Stock Exchange.

2 Unquoted security.

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2012 NSCI (XIC) Weight %	Weight %	Portfolio Valuation £'000	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	31 December 2013 Portfolio Valuation £'000	Weight %	NSCI (XIC)[1] Weight %
Oil & Gas	6	3	21,104	29,372	(5,549)	**44,927**	**4**	**5**
Basic Materials	7	5	42,770	(4,194)	1,207	**39,783**	**3**	**7**
Industrials	28	33	266,086	4,115	136,248	**406,449**	**35**	**28**
Consumer Goods	7	5	39,798	(11,213)	24,101	**52,686**	**5**	**8**
Health Care	3	3	25,080	1,131	11,368	**37,579**	**3**	**3**
Consumer Services	24	20	164,504	(21,047)	105,298	**248,755**	**21**	**18**
Telecommunications	2	1	8,176	(366)	2,922	**10,732**	**1**	**3**
Utilities	1	–	–	–	–	**–**	**–**	**1**
Financials	17	17	138,198	(6,862)	62,617	**193,953**	**17**	**19**
Technology	6	13	107,610	(9,962)	35,118	**132,766**	**11**	**8**
	100	100	813,326	(19,026)	373,330	**1,167,630**	**100**	**100**

[1] This reflects the rebalanced index as at 1 January 2014.

[2] Includes transaction costs.

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2012 Portfolio No. of Companies	Portfolio Valuation £'000	Weight %	NSCI (XIC) Weight %	31 December 2013 Portfolio No. of Companies	Portfolio Valuation £'000	Weight %	NSCI (XIC)[1] Weight %
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	39	462,345	57	76	**34**	**589,922**	**51**	**70**
FTSE SmallCap	38	284,872	35	18	**40**	**461,666**	**40**	**24**
FTSE Fledgling	6	25,187	3	1	**9**	**63,758**	**5**	**2**
Other	7	40,922	5	5	**9**	**52,284**	**4**	**4**
	90	813,326	100	100	**92**	**1,167,630**	**100**	**100**

[1] This reflects the rebalanced index as at 1 January 2014.

Portfolio Information

Summary of Material Portfolio Changes

For the year ended 31 December 2013

Purchases	Cost £'000	Sales	Proceeds £'000
QinetiQ Group	20,750	Regus	25,503
Shanks Group	17,937	Howden Joinery Group	21,402
FirstGroup	17,629	Thomas Cook Group	20,013
Vesuvius	17,309	Galliford Try	20,007
Go-Ahead Group	14,797	Playtech	17,686
Carillion	14,470	Barratt Developments	16,681
Soco International	13,494	Bodycote	16,515
F&C Asset Management	12,655	Beazley	14,726
Bovis Homes Group	11,113	CSR	14,568
Grainger	10,908	Cranswick	13,449
TT electronics	10,157	4imprint Group	13,207
Kenmare Resources	9,738	AZ Electronic Materials	13,116
SDL	9,639	Workspace Group	12,098
Vitec Group	9,403	Laird	11,639
Redrow	7,051	Lavendon Group	10,983
Hardy Oil & Gas	6,820	Topps Tiles	10,751
Hogg Robinson Group	6,777	Dixons Retail	10,195
Intermediate Capital Group	6,775	Safestore Holdings	9,760
Morgan Advanced Materials	6,599	Fiberweb	9,088
McBride	6,534	Intermediate Capital Group	8,307
Other Purchases	167,638	Other Sales	127,525
Total for the period	**398,193**	**Total for the period**	**417,219**

This summary shows the 20 largest aggregate purchases and sales including transaction costs.

The Strategic Report, contained on pages 1 to 19, has been approved by the Board of Directors on 28 January 2014 and signed on its behalf by:

Professor Paul Marsh,
Chairman

Governance Report

Board of Directors

Professor P R Marsh, Chairman

Appointed: 16 July 2004 Remuneration: £ 33,750 p.a
Shareholding in the Company: 33,000 Ordinary Shares

Paul is Emeritus Professor of Finance at London Business School. Within London Business School, he has been Deputy Principal, Faculty Dean, Chair of the Finance area, Associate Dean Finance Programmes and an elected Governor. He has advised on several public enquiries, and was previously a Director of Majedie Investments plc (until 2006) and M&G Group (until 1999). He co-designed the FTSE 100 Index and the Numis Smaller Companies Index, the latter produced for Numis Securities at London Business School.

D J Jeffcoat

Appointed: 22 July 2009 and is Chairman of the Audit Committee Remuneration: £ 27,500 p.a.
Shareholding in the Company: 5,029 Ordinary Shares

David began his career as a production engineer at Jaguar Cars. After qualifying as an accountant (FCMA) several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently he was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until 2009. He is a Director and Chairman of the Audit Committee of WYG plc. He also works as a volunteer Citizens Advisor.

Professor W S Nimmo

Appointed: 16 July 2004 Remuneration: £ 22,500 p.a
Shareholding in the Company: 29,157 Ordinary Shares

Walter was previously Chief Executive and Chairman of the Inveresk Research Group until 2004. He founded Inveresk Clinical Research in 1988. Currently he sits on the board of a number of private companies.

R A Rae

Appointed: 26 January 2012 and is a member of the Audit Committee Remuneration: £ 23,500 p.a.
Shareholding in the Company: 4,000 Ordinary Shares

Richard qualified as a chartered accountant with KPMG and joined Hoare Govett as an investment analyst in 1987. He spent 22 years working in investment research and equities management, latterly as a Managing Director, responsible for smaller companies, in the Global Equities division of ABN AMRO. Since 2009, he has established himself as an independent management consultant providing due diligence and corporate advice to both listed and unlisted companies. He is also a director of Chaarat Gold Holdings Limited.

S P Trickett

Appointed: 30 January 2013 Remuneration: £ 23,500 p.a.
Shareholding in the Company: 2,500

Paul is a director or trustee to a number of organisations in the financial services and pensions area. He chairs the trustees of the Legal & General master trust and the Zurich UK pension scheme and is on the board of Insight Investment, Thomas Miller Investment and Railpen Investment. He also chairs the advisory board of Muse Advisory. He retired from a full time executive career in 2013 where he was latterly a Managing Director at Goldman Sachs Asset Management.

P M Hay-Plumb

Appointed: 29 January 2014 Remuneration: £ 22,500 p.a.
Shareholding in the Company: n/a

Paula is a chartered accountant and an experienced director with a wealth of finance and governance expertise in both the private and public sectors. Her previous roles include Corporate Finance and Group Reporting Director at Marks and Spencer plc, Chairman of the National Australia Group Common Investment Fund and non-executive board member of Skipton Building Society. Paula is currently Senior Independent Director of the National Audit Office and a Non-Executive Board Member of Hyde Housing Association. She is also Finance Director of Rosling King LLP.

J Le Blan

Appointed: 29 January 2014 Remuneration: £ 22,500 p.a.
Shareholding in the Company: n/a

Julia is a chartered accountant and has worked in the financial services industry for over 30 years. She was formerly a tax partner at Deloitte and expert on the taxation of investment trust companies. She sat for two terms on the AIC's technical committee and is also a Director of Investors Capital Trust plc, Impax Environmental Markets plc and JP Morgan US Smaller Companies Investment Trust plc.

Directors' Report

The Directors submit their Report and Accounts for the year ended 31 December 2013.

Directors

The Directors of the Company during the financial year are listed on page 20.

As stated in the separate Corporate Governance Report, all Directors seek re-election every year and, as a result, all Directors retire at the AGM to be held on 27 February 2014. All Directors, with the exception of Mr Nimmo who will retire at the forthcoming AGM, offer themselves for re-election and biographical details for each are shown on page 20. Details of Directors' shareholdings are shown on page 35.

Objective, Investment Policy, Investment Strategy and Risks

These are explained fully in the Strategic Report on pages 4 and 5.

Return and Dividends

The total return attributable to Shareholders for the year ended 31 December 2013 amounted to a gain of £394,311,000 (2012 – gain of £188,183,000). The net asset value per Ordinary Share at 31 December 2013 was 1,193.22p (2012 – 802.76p).

Your Board is pleased to declare a final dividend of 16.15p (total of £15,404,000), which produces total dividends for the year of 23.5p (total of £22,427,000), an increase of 5.6% over the previous year. The final dividend of 16.15p per share, subject to Shareholder approval, will be paid on 6 March 2014 to Shareholders on the register at the close of business on 7 February 2014.

Company Status

The Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006 and manages its affairs so as to qualify as an investment trust under Section 1158 of the Corporation Tax Act 2010. It has a fixed share capital although, subject to Shareholder approval sought annually, it may purchase its own Shares. The Company is listed and its Shares trade on the London Stock Exchange. Furthermore the Company is subject to the laws and regulations relating to UK listed companies.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. In common with the majority of investment trusts, the Company has no executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. The Corporate Governance Report within this Annual Report contains a thorough review of the Company's stance on corporate governance.

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an investment trust. The key requirements include:

- the Company must invest in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds;
- the Company's Ordinary Shares must be listed on a regulated market such as the London Stock Exchange;
- the Company must not retain in respect of each accounting period more than 15% of its total income; and
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an investment trust for accounting periods commencing on or after 1 January 2013 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an investment trust.

Continuation of the Company

The Company has no fixed duration. However, in accordance with the Company's Articles of Association, the Company's Shareholders are asked every three years to vote on the continuation of the Company and an ordinary resolution will be proposed at the Annual General Meeting to be held on 27 February 2014. The Directors are recommending that the Company's Shareholders vote in favour of this resolution.

If such resolution is not passed, the Directors will prepare and submit to Shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide Shareholders with a means whereby they can defer any

Directors' Report

liability to capital gains tax on their investment at that time. If these proposals are not approved, Shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of Ordinary Shares and distributed, pro rata, among such holders.

Management

Aberforth Partners LLP (the "firm") act as investment managers and secretaries to the Company. The predecessor business, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.2 billion (as at 31 December 2013). The firm is wholly owned by six partners – five investment managers (including three founding partners), and Alan Waite, who is responsible for the firm's administration. The founding partners have been managing the portfolio since the Company's inception in December 1990. Six investment managers work as a team managing the Company's portfolio on a collegiate basis. The six managers are Andrew Bamford, Euan Macdonald, Keith Muir, Richard Newbery, David Ross and Alistair Whyte.

These services can be terminated by either party at any time by giving six months' notice of termination. Compensation fees would be payable in respect of this six month period only if termination were to occur sooner. Aberforth Partners LLP receives an annual management fee, payable quarterly in advance, equal to:

(i) 0.8% of the net assets of the Company up to £800m; plus

(ii) 0.7% of the net assets of the Company between £800m and £1 billion (if any); plus

(iii) 0.6% of the net assets of the Company greater than £1 billion (if any).

The Company also pays a secretarial fee, payable quarterly in advance, which amounted to £75,569 (excluding VAT) during 2013. The secretarial fee is adjusted annually in line with the Retail Prices Index and is subject to VAT, which is currently irrecoverable by the Company.

The Board reviews the Company's investment management and secretarial arrangements on an on-going basis and formally at its October meeting, where each Director completes a Managers' Evaluation questionnaire. The Board then considers the results of the questionnaire and discusses the following matters, amongst others, in its review:

- investment performance in relation to the investment objective, policy and strategy;
- the continuity and quality of personnel managing the assets;
- the level of the management fee;
- the quality of reporting to the Board;
- the alignment of interests between the investment manager and the Company's Shareholders;
- the administrative services provided by the Secretaries; and
- the frequency and quality of presentations to the Company's larger Shareholders.

Following the most recent review, the Board was of the opinion that the continued appointment of Aberforth Partners LLP as investment managers, on the terms agreed, remains in the best interests of Shareholders.

Capital Structure and Share Buy-Backs

At 31 December 2013, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 95,382,792 were issued and fully paid. During the year, 310,000 shares (with a nominal value of £3,100) were bought back (0.3% of the Company's issued share capital) and cancelled at a total cost of £2,758,000. No shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares will be made only at a level that enhances the net asset value (NAV), the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to continue to use the share purchase facility within guidelines established from time to time by the Board.

Bank Debt Facility

On 4 May 2011, the Company entered into a three year unsecured bank debt facility of £100 million with The Royal Bank of Scotland plc. This facility can be used at any time. As at 31 December 2013, the Company had drawn down £32.0 million under the facility. Further information can be found in Note 11 to the Financial Statements.

Directors' Report

Going Concern

In accordance with the report "Going Concern and Liquidity Risk : Guidance for Directors of UK Companies 2009" issued by the Financial Reporting Council, the Audit Committee has undertaken and documented an assessment of whether the Company is a going concern. The Committee then reported the results of their assessment to the Board.

The Company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development, performance and position are set out in the Strategic Report. In addition, the Annual Report includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements, though funding flexibility can typically be achieved through the use of the bank debt facility. The Company has adequate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that Shareholders are likely to support a recommendation for the Company's continuation. The Directors believe the Company is well placed to continue to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future.

In summary and taking into consideration all available information, the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code, issued in 2013, can be found on pages 26 to 29 and forms part of this report.

Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Voting Rights of Shareholders

At Shareholder meetings and on a show of hands, every Shareholder present in person or by proxy has one vote and, on a poll, every Shareholder present in person has one vote for each share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed. The deadline for proxy appointments is 48 hours before the time fixed for the meeting, or any adjourned meeting.

The Board is pleased to offer electronic proxy voting, including CREST voting capabilities. Shareholders may therefore complete the enclosed form of proxy and return it to Capita Registrars, the Company's registrar, or alternatively, they may register their vote on-line (www.capitashareportal.com) or via CREST. Further details can be found in the Notice of the AGM.

Substantial Share Interests

The Board has received notifications of the following interests in 3% or more of the voting rights of the Company as at 31 December 2013 and 28 January 2014. The total number of votes amounted to 95,382,792 at each of these dates.

Interested person	Percentage of Voting Rights Held
Investec Wealth & Investment Limited	8.0
Rathbone Brothers plc	5.5
Brewin Dolphin Limited	5.1
Lloyds Banking Group plc (including discretionary investment management)	4.2

Directors' Report

Annual General Meeting

The AGM will be held on Thursday, 27 February 2014 at 6.30 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM:

Purchase of Own Shares

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the AGM. Resolution 14, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2015. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations 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 on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

As mentioned above, subject to the requirement that purchases by the Company of its own Shares will be made only at a level that enhances NAV, the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible.

Directors' Recommendation

The Directors consider each resolution being proposed at the AGM to be in the best interests of Shareholders as a whole and they unanimously recommend that all Shareholders vote in favour of them, as they intend to do so in respect of their own beneficial shareholdings.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, debt facilities, debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The main risks that the Company faces arising from its financial instruments are disclosed in Note 18 to the Financial Statements.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006:

- The Company's capital structure and voting rights are summarised on pages 22 and 23.
- Details of the substantial Shareholders in the Company are listed on page 23.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on page 28.
- Amendment of the Company's Articles of Association and powers to issue shares on a non pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by Shareholders.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Bribery Act 2010

The Company has zero tolerance towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

Independent Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

Directors' Report

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make them aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information.

Future Developments

The future success of the Company is dependent primarily on the performance of its investments. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying business of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective and the stated investment strategy and policy.

By Order of the Board
Aberforth Partners LLP, Secretaries
28 January 2014

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. Both the AIC Code and the AIC Guide are available from the AIC website at www.theaic.co.uk.

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The UK Corporate Governance Code includes provision relating to:

- the role of chief executive
- executive directors' remuneration
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant, as the Company is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below, where appropriate.

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for decision of the Board has been adopted. The Board of Directors comprises five non-executive Directors of which Professor Marsh acts as Chairman. The Company has no executive Directors nor any employees. However, the Board has engaged external firms to provide investment management, secretarial, registrar, and custodial services to the Company. Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated authority to them.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. An individual can therefore be considered to be independent even though their length of service exceeds nine years. No limit on the overall length of service of any of the Directors, including the Chairman, has therefore been imposed. All Directors are considered to be independent despite Professor Marsh being on the Board for more than nine years. As in previous years, all Directors retire at each AGM and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of his engagement as a non-executive Director, copies of which are available on request and at the Company's AGM.

The Board formally evaluates the Investment Manager, including performance and quality of reporting to the Board and Shareholders. The Board also reviews the terms of the agreements with the Managers and the Secretaries annually, including the level of service, the basis of fees payable and the length of the notice period. Details of the arrangements are set out in the Directors' Report.

Meetings

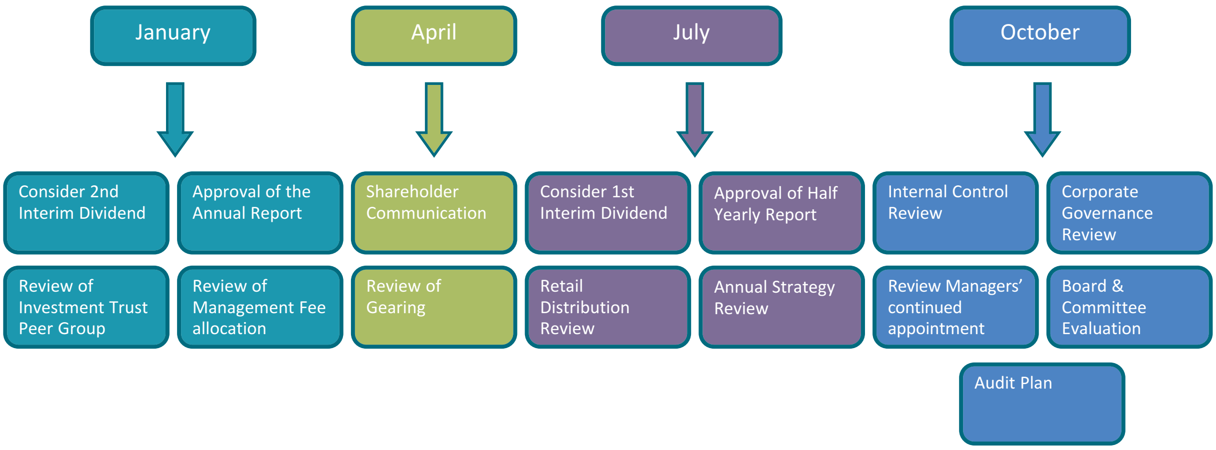
The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance compared with its benchmark index. The Directors also review several key areas including:

- the Company's investment activity over the quarter relative to its investment policy;
- the stockmarket environment;
- the revenue, balance sheet and gearing position;

- performance in relation to comparable investment trusts;
- share price discount (both absolute levels and volatility);
- regulatory matters; and
- relevant industry issues.

In addition, the Board receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes. The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment focus and style.

The following highlights various additional matters considered by the Board during the past year:



The following table sets out the Directors of the Company during the financial year, together with the number of Board and Committee meetings held and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the AGM in March 2013.

Director	The Board Held	The Board Attended	Audit Committee Held	Audit Committee Attended
Prof P R Marsh, Chairman	4	4	–	–
H N Buchan (retired on 5 March 2013)	1	1	1	1
D J Jeffcoat	4	4	4	4
Prof W S Nimmo	4	4	–	–
R A Rae	4	4	4	4
S P Trickett (appointed on 30 January 2013)	3	3	3	3

Appointments to the Board

The Board continually reviews its composition having regard to the present and future needs of the Company and the Board's structure, including the diversity and balance of expertise and skills brought by individual Directors and their length of service, where continuity and experience can add significantly to the strength of the Board. To date the Board has not felt it appropriate or necessary to establish a policy on diversity (including gender). As mentioned in the Chairman's statement, Professor Nimmo will retire at the conclusion of this year's AGM and, in order that the Board continues to have a balance of skills and experience, the Board decided that additional Directors should be appointed.

The Board therefore appointed a Committee for this purpose, chaired by Professor Paul Marsh. This Committee, of which Paul Trickett was also a member, was requested to identify and nominate candidates for consideration by the Board. The Committee was instructed to complete this process taking into consideration the Board's agreed requirements and to seek candidates who would add new perspectives and diversity to the existing Board.

The Committee consulted widely and identified 16 strong candidates. It therefore decided that there was no need to appoint an external search company. Following several meetings and conference calls, the Committee then agreed a short list of 5 candidates, all of whom were approached. Three candidates were interviewed by the Committee during September and October. Finally, the remaining Directors met the preferred candidates put forward by the Committee. After due consideration, the Board agreed to appoint Julia Le Blan and Paula Hay-Plumb as Directors of the Company with effect from 29 January 2014. Both Directors will stand for formal election by Shareholders at the AGM and their biographies can be found on page 20. Julia is a chartered accountant and was formerly a tax partner at Deloitte. She is an experienced investment trust director, sitting on three other trust Boards, and has also served for two terms on the AIC's technical committee. Paula is also a chartered accountant and an accomplished main board director in the private, public and charitable sectors, with significant experience of pension funds, investment management, governance and risk. All the current Directors are male, with two female Directors being appointed on 29 January 2014. The Company has no employees.

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Directors also evaluate the performance of the Board and the Audit Committee by way of an evaluation questionnaire. The Board then considers the results of this exercise, together with other relevant discussion areas. The appraisal of the Chairman is led by the Chairman of the Audit Committee.

The Board does not currently consider that the use of external consultants to facilitate this evaluation is likely to provide any meaningful benefit to the evaluation process, though the option to do so is kept under review.

In line with the Board's policy, each Director retires at the AGM to be held on 27 February 2014. Professor Marsh and Messrs Jeffcoat, Trickett and Rae, whose biographical details are shown on page 20, being eligible, offer themselves for re-election. 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 to Shareholders.

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance cover in respect of legal action against its Directors. The Company has also entered into a deed of indemnity with each Director to cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fines.

Training and Advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. All Directors are entitled to receive appropriate training when required and changes affecting Directors' responsibilities are advised to the Board as they arise. Directors, in the furtherance of their duties, may also seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

All Directors have access to the advice and services of the Company's Secretaries, Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Furthermore, appropriate induction training is arranged by the Secretaries for newly appointed directors.

Conflicts of Interest

A company director has a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures for authorising any conflicts, or potential conflicts, of interest though no conflicts of interest arose during the year under review.

Relations with Shareholders

The Board places great importance on communication with shareholders and receives regular reports from the Managers on views and attitudes of Shareholders. The Managers meet the larger Shareholders twice a year and provide them with a detailed report on the progress of the Company. Directors of the Company are always available to meet with any Shareholder. The Directors may be contacted through the Secretaries whose details are shown on the inside back cover or through the Chairman's email address which is paul.marsh@aberforth.co.uk. In addition to the annual and half yearly reports, the Company's performance, daily

Corporate Governance Report

Net Asset Values, monthly factsheets and other relevant information is published on the Managers' website at www.aberforth.co.uk.

All Shareholders have the opportunity to attend and vote at the AGM during which the Directors and Managers are available to discuss key issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

Internal Control

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Company applies the revised guidance published in October 2005 by The Institute of Chartered Accountants in England and Wales in respect of The Code's sections on Internal Control (commonly known as the Turnbull Guidance on Internal Control). Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the financial information of the Company is reliable. The Directors have an on-going process for identifying, evaluating and managing the significant risks faced by the Company and these are recorded in a risk matrix. This was in operation during the year and continues in place up to the date of this report. The Directors regularly conduct a formal review of the effectiveness of the Company's system of internal control. This process principally comprises the Audit Committee receiving and examining reports from Aberforth Partners LLP, The Northern Trust Company (the Company's custodian) and Capita Registrars (the Company's registrar). The Board then receives a detailed report from the Audit Committee on its findings. As a consequence the Directors have not identified any significant failures or weaknesses in respect of the Company's system of internal control.

Social, Environmental and Ethical Issues

The Company is normally a shareholder in over 80 small UK quoted companies. Day to day management of the Company's investment portfolio is carried out by its Managers, Aberforth Partners LLP. The Managers have a consistent and well-defined investment process based on fundamental analysis of the constituents of the investment universe. The Managers' Corporate Governance Statement (incorporating the Stewardship Code) is available from their website.

The Managers' primary objective is to deliver investment returns greater than the return on the Company's benchmark index, the NSCI (XIC), over the long term. The Directors, through the Company's Managers, also encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Board and the Managers support the Statement of Principles of the Institutional Shareholders Committee, which sets out the responsibilities of institutional shareholders and agents.

Effective management of risks and opportunities posed by Social, Environmental and Ethical (SEE) issues is an important component of good corporate governance. Companies that ignore significant corporate responsibilities risk serious damage to their reputation, brand and shareholder value, as well as litigation and operational risks.

The Managers believe that sound SEE policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of SEE concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

Voting Policy

The Board has given discretionary voting powers to the Managers. Aberforth Partners LLP exercises these voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned.

The Board receives from the Managers quarterly reports on governance issues (including voting) arising from investee companies and reviews, from time to time, the Managers' voting guidelines and its stance towards SRI and SEE matters have been reviewed and endorsed by the Board.

Audit Committee Report

Members of the Audit Committee:

David Jeffcoat, Chairman (appointed as a member on 22 July 2009, chairman from 25 January 2011)
Richard Rae (appointed as a member on 17 July 2012)
Paul Trickett (appointed as a member on 17 April 2013)
Hamish Buchan (retired on 5 March 2013)

The Committee members have been selected to provide a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The biographies of the Committee members can be found on page 20.

Key Objective:

To support the Board in providing effective governance over the Company's financial results, the performance of the external auditor, the quality of internal controls at key third party service providers, business risks and related compliance activities.

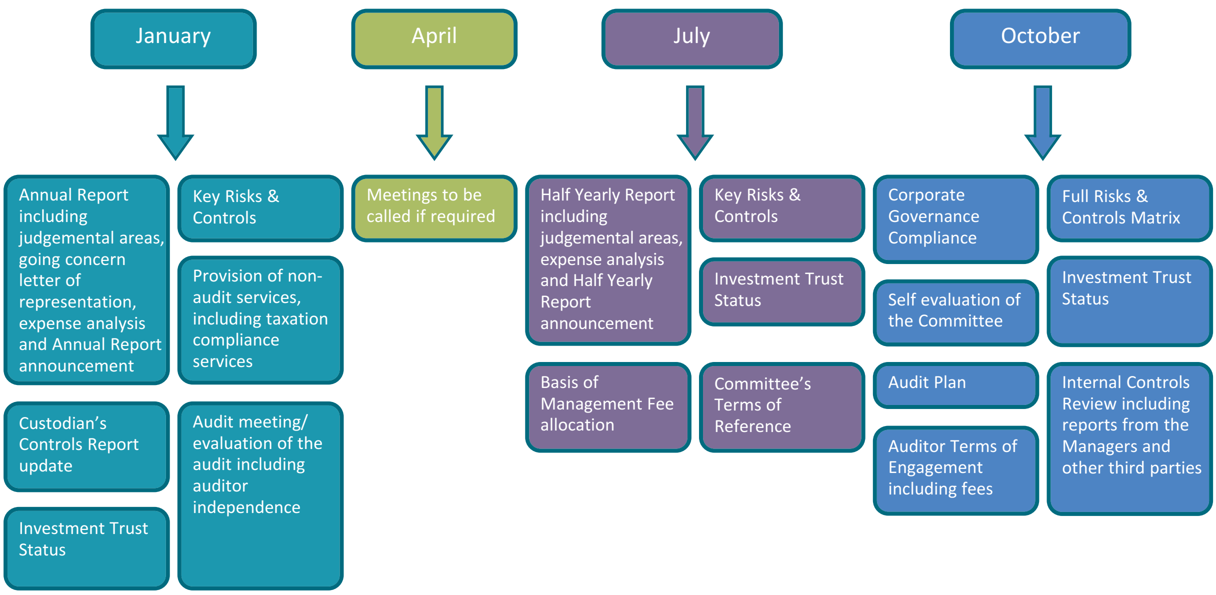
Key Responsibilities:

The Committee assists the Board in carrying out its responsibilities in relation to:

- monitoring and reviewing the integrity of the Company's financial statements and the accounting policies adopted, judgemental areas and corporate governance;
- assessing the Company's key risks, the internal control objectives and controls adopted;
- monitoring compliance with relevant statutory and investment trust requirements;
- assessing the effectiveness of the external audit, agreeing the Auditor's terms of appointment, including remuneration and determining the independence and objectivity of the Auditor; and
- considering the provision of non-audit services to be carried out by the Auditor.

The Chairman reports formally to the Board on the Committee's proceedings after each meeting on all matters within its terms of reference. To assist with the various duties of the Committee, the following Annual Plan has been approved:

Audit Committee Annual Plan



Audit Committee Report

Meetings

Meetings are attended by the members, all of whom are independent non-executive directors, and, by invitation, representatives of the Secretaries. Three meetings are typically scheduled each year, although additional meetings are held as deemed necessary. PricewaterhouseCoopers LLP ("PwC"), the reporting accountant in relation to the Managers' report on their control environment, attended the October 2013 meeting and Deloitte LLP ("Deloitte"), the external auditor, attended the October 2013 and January 2014 meetings.

The Committee operates within terms of reference that have been agreed with the Board. These terms of reference are reviewed annually and are available for inspection on request.

Four meetings were held during the past year and the Committee focused on the areas discussed below.

Financial Reporting

The primary role of the Committee is to review the financial reports that are provided to the Shareholders, concentrating on, amongst other matters:

- the appropriateness of the accounting policies and clarity of disclosures;
- key risks including safekeeping and valuation of investments and the accounting for special dividends; and
- areas in which significant judgements have been applied or where there has been substantial discussion with the external auditor.

The Committee considers reports from the external auditor on the preparation and audit of the financial statements and from the Secretaries on this and other relevant matters. In addition, the Committee seeks to ensure that the Company maintains its investment trust status.

In relation to the 2013 Annual Report, the Committee considered and agreed a number of matters including:

- a report from the Secretaries that set out the accounting treatment of each special dividend recognised during the period;
- a report from the Secretaries supporting the continued basis of allocation of the management fee and interest costs (62.5% to capital and 37.5% to revenue); and
- the ownership and valuation of the investment portfolio as at 31 December 2013.

Going Concern

The Committee received a report from the Secretaries on going concern, including guidance published by the FRC, and discussed the liquidity of the portfolio, trading activity, portfolio diversification, the existing debt facility and the continuation vote at the AGM in February. In particular, the Committee agreed that the renewal or otherwise of the debt facility would not affect the going concern status. Furthermore, the Committee had received positive feedback from the Company's larger Shareholders, following meetings with the Company's Managers, which suggested that Shareholders would support the continuation vote at the forthcoming AGM. After due consideration, the Committee concluded it was appropriate to prepare the 2013 Annual Report on a going concern basis and made this recommendation to the Board.

Internal Control and Risks

The Committee considered the Managers' report on internal controls, including the assurance report issued by PWC, whose responsible director submitted a full report on their work at the October 2013 meeting. In addition, the Committee received internal control reports from both the Company's custodian and registrar. The Committee reviewed all three reports and was satisfied that there were no significant issues.

The Committee also considered whether there was a need for an internal audit function. The Committee concluded that, as the Company has no employees and receives internal control reports, including independent assurance reports, from its key third party suppliers, an internal audit function is still not necessary.

The Committee carefully considered a Summary Matrix of the Company's key risks and mitigating controls at each meeting and, in October 2013, a detailed Matrix of risks and controls. The Committee enhanced the design and content of the Matrix during the year and believes that it continues to accurately reflect the Board's views of the Company's risks.

Audit Committee Report

Change of External Auditor

Ernst & Young LLP (“EY”) had been the Company’s external auditor since 1990. Whilst the Committee was satisfied with the quality of the external audit undertaken by EY and that there was no evidence of any lack of independence, the Committee felt it was appropriate to conduct a formal tender exercise. This decision was supported by subsequent revisions to the UK corporate governance code, which recommends a tender exercise at least every ten years.

Following an assessment of the external audit marketplace, an initial list of six firms was established. After further consideration by the Committee, “Invitations to Tender” were sent to three firms, including the incumbent Auditor. All three tendered for the contract and the Committee met representatives of each firm. The Committee felt that each firm demonstrated experience of the investment trust sector and the proposed fees were similar. Taking all relevant factors into account, the Committee agreed that a change of auditor was desirable and the Board approved the recommended appointment of Deloitte as the Company’s Auditor effective April 2013.

External Audit

The Committee received a detailed audit plan from Deloitte in October, before work started on the 2013 audit. This plan set out the scope of the audit work, key audit risks, the proposed timetable, full justification for Deloitte’s independence and the quality of their work, and a formal fee proposal. All of this was consistent with the tender proposal submitted earlier in the year. The key risks identified by Deloitte included the valuation and ownership of investments.

The Committee held private discussions with the Auditor to create an additional opportunity for dialogue on any potentially sensitive matters or concerns without the Secretaries being present.

Following completion of the external audit, the Secretaries provided positive feedback to the Committee on the conduct of the audit. The Auditors also provided confirmation that they had complied with the relevant UK professional and regulatory requirements on independence. The Committee has no reason to believe that the Auditor’s independence has been impaired.

Fees paid to Deloitte relating to audit work amounted to £18,250, excluding VAT, for the year ended 31 December 2013 (2012: £17,650 paid to Ernst & Young LLP). Taking into account the experience of the audit partner and staff at Deloitte and the quality of the work undertaken during the audit of the Annual Report, the Committee is satisfied with the external audit. As a result it recommended to the Board the appointment of Deloitte as the Company‘s Auditors for the 2014 financial year. The Board supported this recommendation and a proposal will be put to Shareholders at the forthcoming AGM.

Non-Audit Services

No fees have been paid to Deloitte for non-audit work in the year ended 31 December 2013. However, fees of £3,850 were paid during the year to EY, the previous external auditors, relating to the completion and submission of the corporation tax return, including iXBRL formatted accounts. The Committee is satisfied that the nature and extent of the work did not impair their independence as external auditor in any way.

Committee Evaluation

The Board conducts a formal annual review of the Committee’s effectiveness, using an evaluation questionnaire. The outcome was positive with no significant concerns expressed.

David Jeffcoat
Audit Committee Chairman
28 January 2014

Directors' Remuneration Policy

This section provides details of the remuneration policy for the Directors of the Company. All Directors are non-executive, appointed under the terms of letters of appointment and none has a service contract. The Company has no employees.

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. An Ordinary resolution will be put to members at the forthcoming Annual General Meeting for the approval of this policy. If the resolution is passed, the policy provisions below will apply until they are next put to Shareholders for approval, which must be at intervals of not more than three years. This Policy, together with the Directors' letters of appointment may be inspected at the Company's registered office.

The Board is composed wholly of non-executive Directors who together consider and determine all matters relating to the Directors' remuneration at the beginning of each financial period. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Company's Policy on Directors' Remuneration

The Company's policy is that the remuneration of the Directors should be commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of appropriate quality and experience. The remuneration should also be comparable to that of similar investment trusts within the AIC's UK Smaller Companies sector and other investment trusts that are similar in size and structure. No Shareholder has expressed any views to the Company in respect of Directors' remuneration. Remuneration Policy is not subject to employee consultation as the Company has no employees.

The Board, at its discretion, shall determine Directors' remuneration subject to the aggregate annual fees not exceeding £200,000 in accordance with the Company's Articles of Association. Such remuneration is solely composed of Directors' fees and Directors are not eligible for any other remuneration.

The table below sets out the Directors' fees in respect of the year ending 31 December 2013 and 31 December 2014:

	Annual Fees 2014 £	Annual Fees 2013 £
Chairman of the Company	**33,750**	33,000
Director and Chairman of the Audit Committee	**27,500**	27,000
Director and Member of the Audit Committee	**23,500**	23,000
Director	**22,500**	22,000

It is intended that this policy will remain in place for the following financial year and subsequent periods.

Loss of Office

A Director may be removed without notice and no compensation will be due on loss of office.

Expenses

All directors are entitled to the reimbursement of expenses paid by them in order to perform their duties as a Director of the Company.

Review of the Remuneration Policy

The Board has agreed to review the above policy at least annually to ensure that it remains appropriate.

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. Ordinary resolutions will be put to members at the forthcoming Annual General Meeting for the approval of this report and every year thereafter.

The law requires the Company's Auditor to audit certain elements of this report. These elements are described below as "audited". The Auditor's opinion is included in the Independent Auditor's Report on page 38.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to annual re-election by Shareholders. After the initial period, each Director's term is, upon review, extended for a further year. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter at every subsequent Annual General Meeting.

The following Directors held office during the year:

Director	Date of Appointment	Date of Retirement	Date of election/ re-election
Prof P R Marsh, *Chairman*	16 July 2004	—	AGM 2014
H N Buchan	11 November 2003	5 March 2013	—
D J Jeffcoat	22 July 2009	—	AGM 2014
Prof W S Nimmo	16 July 2004	—	—
R A Rae	26 January 2012	—	AGM 2014
S P Trickett	29 January 2013	—	AGM 2014

Each Director's unexpired term, other than that of Prof Nimmo, is subject to their re-election at the Annual General Meeting in February 2014. As previously stated, Prof Nimmo will retire at the forthcoming Annual General Meeting.

Directors' Fees (Audited)

The emoluments of the Directors who served during the year were as follows:

	Fees (Total Emoluments) 2013 £	Fees (Total Emoluments) 2012 £
Prof P R Marsh, Chairman	**33,000**	31,500
D J Jeffcoat, Chairman of the Audit Committee	**27,000**	26,000
Prof W S Nimmo	**22,000**	21,000
R A Rae, Member of the Audit Committee	**23,000**	20,021
S P Trickett, Member of the Audit Committee Appointed 29 January 2013	**20,867**	–
H N Buchan, Member of the Audit Committee Retired 5 March 2013	**4,033**	22,000
J E G Cran, Member of the Audit Committee Retired 7 March 2012	**–**	4,027
	129,900	124,548

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, pension contributions or other benefits.

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends and share buybacks:

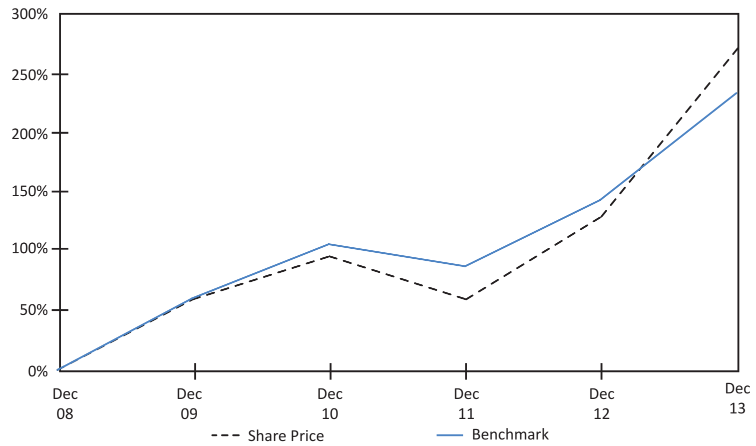
	2013 £'000	2012 £'000	Absolute change £'000
Total Directors' remuneration	**130**	125	+5
Total dividends in respect of that year	**22,427**	21,289	+1,138
Total share buyback consideration	**2,758**	2,642	+116

Directors' Remuneration Report

Share Price Performance

The graph below compares the performance of the Company's share price against the Numis Smaller Companies Index (Excluding Investment Companies), on a total return basis (assuming all dividends reinvested). This index has been selected for the purposes of comparing the Company's share price performance as it has been the Company's benchmark since inception.

Total Return Performance since 31 December 2008



Note: For further information on the above graph, please refer to the Historic Total Returns tables on page 6.

Statement of Directors' Shareholdings and Share Interests

The Directors who held office at any time during the year ended 31 December 2013 and their interests in the Shares of the Company as at that date and 1 January 2013 were as follows:

Directors	Nature of Interest	Ordinary Shares 31 December 2013	1 January 2013
Prof P R Marsh	Beneficial	33,000	33,000
H N Buchan, retired on 5 March 2013	Beneficial	n/a	19,474
D J Jeffcoat	Beneficial	5,029	4,898
Prof W S Nimmo	Beneficial	29,157	29,157
R A Rae	Beneficial	4,000	4,000
S P Trickett, appointed on 29 January 2013	Beneficial	2,500	n/a

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2013 and 28 January 2014. The Company has no share options or any share schemes. Directors are not required to own shares in the Company.

Statement of Voting at the Last Annual General Meeting

At the last Annual General Meeting held on 5 March 2013, Shareholders, on a show of hands, passed the resolution to approve the Directors' remuneration report. Furthermore, of the 37,374,660 proxy votes, 99.92% were cast in favour, 0.07% were cast against and 0.01% votes were withheld.

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 Directors' Remuneration Report summarises, as appropriate, for the year ended 31 December 2013:

(a) the major decisions on Directors' remuneration;

(b) any substantial changes relating to Directors' remuneration made during the year; and

(c) the context in which those changes occurred and decisions have been taken.

Professor Paul Marsh
Chairman

28 January 2014

Directors’ Responsibility Statement

The Directors are required by law to prepare financial statements for each financial year. The Directors are also required to prepare a Strategic Report, Directors’ Report, Directors’ Remuneration Report and Corporate Governance Statement.

One of the key governance requirements of a company’s financial statements is for the report and accounts to be fair, balanced and understandable. The co-ordination and review of the input into ASCoT’s Annual Report and Accounts is a sizeable exercise within an exacting timetable, including the formal audit process undertaken by Deloitte LLP.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring that the Annual Report includes information required by the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority. The Directors confirm that they have complied with these requirements in preparing the financial statements.

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company’s Managers. The work undertaken by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

Each of the Directors confirm to the best of their knowledge that:

(a) the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) 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 it faces.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company’s performance, objective and strategy.

On behalf of the Board
Professor Paul Marsh
Chairman

28 January 2014

Independent Auditor's Report
To the Members of Aberforth Smaller Companies Trust plc

Opinion on financial statements of Aberforth Smaller Companies Trust plc

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

The financial statements comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies in January 2009 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 23 that the Company is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

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.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Valuation and ownership of investments – The investments of the Company make up 102.6% of total net assets. There is a risk that investments within the portfolio may not be actively traded, the prices quoted may not be reflective of fair value and assets recorded may not represent property of the Company.	We documented and assessed the controls in place to value the investment portfolio. We tested the ownership of investments by verifying 100% of the portfolio to independent custodian confirmation. We reviewed a report prepared by the Managers on the design and operation of controls at the custodian. We agreed the valuation of 100% of the investment portfolio to third party pricing sources.

The Audit Committee's consideration of this risk is set out on page 31.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent Auditor's Report

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be £34 million, which is 3% of net assets.

We agreed with the Audit Committee that we would report to them all audit differences in excess of £683,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our audit we assessed the controls in place at the Secretaries and Managers who prepare the financial statements of the Company.

Opinion 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; and
- 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.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 Company's financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non- financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Partridge C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP,
Chartered Accountants and Statutory Auditor,
Edinburgh,
United Kingdom

28 January 2014

(a) The maintenance and integrity of the Aberforth Partners LLP web site is the responsibility of the partners of Aberforth Partners LLP; the work carried out by the auditor of Aberforth Smaller Companies Trust plc does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2013

		2013			2012		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	**–**	**377,222**	**377,222**	–	169,537	169,537
Investment income	2	**29,741**	**–**	**29,741**	28,065	–	28,065
Other income	2	**–**	**–**	**–**	1	–	1
Investment management fee	3	**(2,614)**	**(4,357)**	**(6,971)**	(2,057)	(3,428)	(5,485)
Other expenses	4	**(496)**	**(3,892)**	**(4,388)**	(443)	(2,035)	(2,478)
Net return before finance costs and tax		**26,631**	**368,973**	**395,604**	25,566	164,074	189,640
Finance costs	5	**(485)**	**(808)**	**(1,293)**	(540)	(899)	(1,439)
Return on ordinary activities before tax		**26,146**	**368,165**	**394,311**	25,026	163,175	188,201
Tax on ordinary activities	6	**–**	**–**	**–**	(18)	–	(18)
Return attributable to equity shareholders		**26,146**	**368,165**	**394,311**	25,008	163,175	188,183
Returns per Ordinary Share	8	**27.37p**	**385.35p**	**412.72p**	26.07p	170.13p	196.20p

The Board declared on 28 January 2014 a final dividend of 16.15p per Ordinary Share (2012 — 15.25p). The Board also declared on 18 July 2013 an interim dividend of 7.35p per Ordinary Share (2012 — 7.0p).

The total column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2013

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2012	957	31	179,461	542,451	45,279	768,179
Return on ordinary activities after taxation	–	–	–	368,165	26,146	394,311
Equity dividends paid	–	–	–	–	(21,607)	(21,607)
Purchase of Ordinary Shares	(3)	3	(2,758)	–	–	(2,758)
Balance as at 31 December 2013	**954**	**34**	**176,703**	**910,616**	**49,818**	**1,138,125**

For the year ended 31 December 2012

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2011	961	27	182,103	379,276	40,724	603,091
Return on ordinary activities after taxation	–	–	–	163,175	25,008	188,183
Equity dividends paid	–	–	–	–	(20,453)	(20,453)
Purchase of Ordinary Shares	(4)	4	(2,642)	–	–	(2,642)
Balance as at 31 December 2012	957	31	179,461	542,451	45,279	768,179

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**1,167,630**	813,326
Current assets			
Debtors	10	**2,120**	1,857
Cash at bank		**536**	259
		2,656	2,116
Creditors (amounts falling due within one year)	11	**(32,161)**	(577)
Net current (liabilities)/assets		**(29,505)**	1,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,138,125**	814,865
Creditors (amounts falling due after more than one year)	12	**–**	(46,686)
TOTAL NET ASSETS		**1,138,125**	768,179
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	13	**954**	957
Capital redemption reserve	14	**34**	31
Special reserve	14	**176,703**	179,461
Capital reserve	14	**910,616**	542,451
Revenue reserve	14	**49,818**	45,279
TOTAL SHAREHOLDERS' FUNDS		**1,138,125**	768,179
NET ASSET VALUE PER SHARE	15	**1,193.22p**	802.76p

Approved and authorised for issue by the Board of Directors on 28 January 2014 and signed on its behalf by:

Professor Paul Marsh,
Chairman

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Net return before finance costs and taxation		**395,604**	189,640
Gains on investments		**(377,222)**	(169,537)
Scrip dividends received		**(223)**	(120)
Expenses incurred in acquiring or disposing of investments		**3,892**	2,035
(Increase)/decrease in debtors		**(248)**	694
Increase/(decrease) in other creditors		**24**	(4)
Net cash inflow from operating activities		**21,827**	22,708

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities		**21,827**	22,708
Taxation		**(15)**	9
Returns on investments and servicing of finance	16	**(1,225)**	(1,394)
Capital expenditure and financial investment	16	**18,805**	23,506
		39,392	44,829
Equity dividends paid	7	**(21,607)**	(20,453)
		17,785	24,376
Financing			
Purchase of Ordinary Shares		**(2,758)**	(3,018)
Net repayment of bank debt facilities (before costs)	17	**(14,750)**	(21,250)
Increase in cash	17	**277**	108

	Note	2013 £'000	2012 £'000
Reconciliation of net cash flow to movement in net debt	17		
Increase in cash in the year		**277**	108
Net repayment of bank debt facilities		**14,750**	21,250
Amortised costs in respect of the bank debt facility		**(51)**	(52)
Change in net debt		**14,976**	21,306
Opening net debt		**(46,427)**	(67,733)
Closing net debt		**(31,451)**	(46,427)

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Accounting Policies

A summary of the principal accounting policies adopted, all of which have been applied consistently throughout the year and with the preceding year, are set out below.

(a) Basis of accounting

The financial statements have been prepared on a going concern basis and in accordance with UK generally accepted accounting practice ("UK GAAP") and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2009.

(b) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Quoted investments are valued at their fair value which is represented by the bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value. Purchases and sales of investments are accounted for on trade date.

As investments have been categorised as "financial assets at fair value through profit or loss", gains and losses arising from changes in fair value are included in the capital return for the period and transaction costs on acquisition or disposal of a security are expensed to the capital reserve.

(c) Income

Dividends receivable on quoted equity shares are accounted for on the ex-dividend date as revenue, except where, in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any surplus or deficit in the value of the shares received compared to the cash dividend foregone is recognised as capital. Other income is accounted for on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except as follows:

- expenses which are incidental to the acquisition and disposal of an investment are charged to capital; and
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

(e) Finance costs

Interest costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

The arrangement fee in relation to the £100 million bank debt facility is being amortised over the expected life of the facility (with 62.5% allocated to capital reserve and 37.5% to revenue reserve) on a straight line basis. The unamortised value of these costs is deducted from the fair value of the bank debt facility.

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year-end;
- gains on the return of capital by way of investee companies paying special dividends; and
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation is accounted for in this reserve.

Notes to the Financial Statements

1 Accounting Policies *(continued)*

(h) Capital redemption reserve
The nominal value of Ordinary Shares bought back for cancellation is added to this reserve.

(i) Revenue reserve
This reserve represents the only reserve from which dividends can be funded.

(j) Taxation
The tax effect of different items of income/gain and expenditure/loss is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective rate of tax for the accounting period. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets being recognised only if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

2 Income

	2013 £'000	2012 £'000
Income from investments		
UK dividend income	**27,542**	26,239
UK unfranked investment income	**26**	–
Overseas dividends	**1,610**	1,521
Property income distributions	**340**	185
Scrip dividends	**223**	120
	29,741	28,065
Other income		
Deposit interest	**–**	1
Total income	**29,741**	28,066
Total income comprises:		
Dividends	**29,715**	28,065
Interest from investments	**26**	–
Deposit interest	**–**	1
	29,741	28,066

During the year the Company received no special dividends (2012 – nil) which were considered as a return of capital by the investee companies.

3 Investment Management Fee

	2013 Revenue £'000	**2013 Capital £'000**	**2013 Total £'000**	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Investment management fee	**2,614**	**4,357**	**6,971**	2,057	3,428	5,485

The Company's investment managers are Aberforth Partners LLP ("Aberforth"). The contract between the Company and Aberforth may be terminated by either party at any time by giving six months' notice of termination. Aberforth receive an annual management fee, payable quarterly in advance, equal to:

(i) 0.8% of the net assets of the Company up to £800m; plus
(ii) 0.7% of the net assets of the Company between £800m and £1 billion (if any); plus
(iii) 0.6% of the net assets of the Company greater than £1 billion (if any).

Notes to the Financial Statements

4 Other Expenses

	2013 £'000	2012 £'000
The following expenses (including VAT, where applicable), have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**130**	125
Secretarial services	**91**	88
Registrars fees	**61**	62
AIC fees	**25**	28
Custody and other bank charges	**48**	36
Directors and Officers liability insurance	**9**	9
Auditor's fee – for audit services: recurring (£18,250 + VAT)	**22**	21
– for non-audit services: recurring – taxation compliance services	**–**	5
Legal fees	**12**	2
Other expenses	**98**	67
	496	443

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss, and charged to capital, are analysed below.

	2013 £'000	2012 £'000
Analysis of total purchases		
Purchase consideration before expenses	**395,428**	198,459
Commissions	**1,013**	607
Taxes	**1,752**	852
Total purchase expenses	**2,765**	1,459
Total purchase consideration	**398,193**	199,918
Analysis of total sales		
Sales consideration before expenses	**418,346**	224,573
Commissions	**(1,127)**	(576)
Total sale proceeds net of expenses	**417,219**	223,997
Total expenses incurred in acquiring or disposing of investments	**3,892**	2,035

Notes to the Financial Statements

5 Finance Costs

	2013 Revenue £'000	 Capital £'000	 Total £'000	2012 Revenue £'000	 Capital £'000	 Total £'000
Interest/non-utilisation costs on bank debt facility	**466**	**776**	**1,242**	520	867	1,387
Amortisation of bank debt facility costs	**19**	**32**	**51**	20	32	52
	485	**808**	**1,293**	540	899	1,439

6 Taxation

Analysis of tax charged on return on ordinary activities	2013 £'000	2012 £'000
UK corporation tax charge for the year (see below)	**–**	–
Irrecoverable overseas taxation suffered	**–**	18
	–	18

Factors affecting current tax charge for the year
The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company.

The differences are explained below:

Total returns on ordinary activities before tax	**394,311**	188,201
Notional corporation tax at 23.25% (2012 – 24.5%)	**91,677**	46,109
Non-taxable UK dividends	**(6,379)**	(6,429)
Non-taxable overseas dividend income	**(374)**	(373)
Expenses not deductible for tax purposes	**905**	499
Expenses for which no relief has been taken	**1,875**	1,731
Non-taxable capital returns	**(87,704)**	(41,537)
UK corporation tax charge for the year	**–**	–
Irrecoverable overseas taxation suffered	**–**	18
Total tax charge for the year	**–**	18

The Company has not recognised a potential asset for deferred tax of £17,958,000 (2012: £16,195,000) in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted.

Notes to the Financial Statements

7 Dividends

	2013 £'000	2012 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2012 of 15.25p (2012: 14.3p) paid on 24 February 2013	**14,584**	13,748
Interim dividend for the year ended 31 December 2013 of 7.35p (2012: 7.0p) paid on 23 August 2013	**7,023**	6,705
	21,607	20,453
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2013 of 16.15p (2012: second interim dividend of 15.25p) payable on 6 March 2014	**15,404**	14,584

The final dividend has not been included as a liability in these financial statements.

We also set out below the total dividends payable in respect of the financial year, which form the basis on which the revenue retention requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

	2013 £'000	2012 £'000
Revenue available for distribution by way of dividends for the year	**26,146**	25,008
Interim dividend for the year ended 31 December 2013 of 7.35p (2012: 7.0p)	**7,023**	6,705
Final dividend for the year ended 31 December 2013 of 16.15p (2012: second interim dividend of 15.25p)	**15,404**	14,584
	22,427	21,289

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

	2013	2012
Returns attributable to Ordinary Shareholders	**£394,311,000**	£188,183,000
Weighted average number of shares in issue during the year	**95,541,545**	95,911,500
Return per Ordinary Share	**412.72p**	196.20p

Notes to the Financial Statements

9 Investments

	2013 £'000	2012 £'000
Investments at fair value through profit or loss		
Opening book cost	**766,669**	812,480
Opening fair value adjustment	**46,657**	(142,577)
Opening valuation	**813,326**	669,903
Movements in the period:		
Purchases at cost	**395,428**	198,459
Sales – proceeds	**(418,346)**	(224,573)
– gains/(losses) on sales	**154,439**	(19,697)
Movement in fair value adjustment	**222,783**	189,234
Closing valuation	**1,167,630**	813,326
Closing book cost	**898,190**	766,669
Closing fair value adjustment	**269,440**	46,657
Closing valuation (all investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated)	**1,167,630**	813,326
Net gains/(losses) on sales	**154,439**	(19,697)
Movement in fair value adjustment	**222,783**	189,234
Gains on investments	**377,222**	169,537

The following table shows the investments analysed into the three levels of fair value hierarchy.

Description	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**2013 Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 Total £'000
Investments	**1,167,486**	**–**	**144**	**1,167,630**	813,326	–	–	813,326

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

The following table shows the reconciliations from opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Value at 1 January 2013	Purchases	Sales proceeds	Gains on sales	Movement in fair value	**Value at 31 December 2013**
Unlisted investments	–	–	–	–	144	**144**

10 Debtors

	2013 £'000	2012 £'000
Investment income receivable	**2,067**	1,820
Taxation recoverable	**15**	–
Other debtors	**38**	37
	2,120	1,857

Notes to the Financial Statements

11 Creditors: Amounts falling due within one year

	2013 £'000	2012 £'000
Bank debt facility	**32,000**	–
less unamortised costs	**(13)**	–
	31,987	–
Amounts due to brokers	**–**	444
Other creditors	**174**	133
	32,161	577

Borrowing facilities

On 4 May 2011, the Company entered into a three year unsecured £100 million Facilities Agreement with The Royal Bank of Scotland plc. A 0.15% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 1.35% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate equivalent to 40% of the level of margin.

The main covenant under the facility requires that, every month, total borrowings shall not exceed 30% of the Company's total gross assets (excluding all creditors). There were no breaches of the covenants during the year. As at 31 December 2013, total borrowings represented 2.7% of total gross assets (excluding all creditors). The current facility is due to expire on 2 May 2014.

12 Creditors: Amounts falling due after more than one year

	2013 £'000	2012 £'000
Bank debt facility (see note 11)	**–**	46,750
Less: Unamortised costs	**–**	(64)
	–	46,686

13 Share Capital

	2013		2012	
	No. of Shares	**£'000**	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**95,382,792**	**954**	95,692,792	957

During the year, the Company bought in and cancelled 310,000 shares (2012: 446,000) at a total cost of £2,758,000 (2012: £2,642,000). No shares have been bought back for cancellation between 31 December 2013 and 28 January 2014.

Notes to the Financial Statements

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2011	**961**	**27**	**182,103**	**379,276**	**40,724**	**603,091**
Net losses on sale of investments	–	–	–	(19,697)	–	(19,697)
Movement in fair value adjustment	–	–	–	189,234	–	189,234
Cost of investment transactions	–	–	–	(2,035)	–	(2,035)
Management fees charged to capital	–	–	–	(3,428)	–	(3,428)
Finance costs charged to capital	–	–	–	(899)	–	(899)
Revenue return attributable to equity shareholders	–	–	–	–	25,008	25,008
Equity dividends paid	–	–	–	–	(20,453)	(20,453)
Purchase of Ordinary Shares	(4)	4	(2,642)	–	–	(2,642)
At 31 December 2012	**957**	**31**	**179,461**	**542,451**	**45,279**	**768,179**
Net gains on sale of investments	–	–	–	154,439	–	154,439
Movement in fair value adjustment	–	–	–	222,783	–	222,783
Cost of investment transactions	–	–	–	(3,892)	–	(3,892)
Management fees charged to capital	–	–	–	(4,357)	–	(4,357)
Finance costs charged to capital	–	–	–	(808)	–	(808)
Revenue return attributable to equity shareholders	–	–	–	–	26,146	26,146
Equity dividends paid	–	–	–	–	(21,607)	(21,607)
Purchase of Ordinary Shares	(3)	3	(2,758)	–	–	(2,758)
At 31 December 2013	**954**	**34**	**176,703**	**910,616**	**49,818**	**1,138,125**

15 Net asset value per share

The net asset value per share and the net assets attributable to the Ordinary Shares at the year-end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per share attributable		**Net assets attributable**	
	2013 pence	2012 pence	**2013 £'000**	2012 £'000
Ordinary Shares	**1,193.22**	802.76	**1,138,125**	768,179

Net asset value per Ordinary Share is based on net assets of £1,138,125,000 (2012: £768,179,000), and on 95,382,792 (2012: 95,692,792) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Notes to the Financial Statements

16 Gross cash flows

	2013 £'000	2012 £'000
Returns on investments and servicing of finance		
Interest/non-utilisation costs on bank debt facility	**(1,225)**	(1,394)
Capital expenditure and financial investment		
Payments to acquire investments	**(398,414)**	(200,491)
Receipts from sales of investments	**417,219**	223,997
	18,805	23,506

17 Analysis of changes in net debt

	Net debt at 1 January 2013 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2013 £'000
Cash at bank	**259**	**277**	**–**	**536**
Bank debt facility	**(46,750)**	**14,750**	**–**	**(32,000)**
Bank debt facility fee (see note 11)	**64**	**–**	**(51)**	**13**
	(46,427)	**15,027**	**(51)**	**(31,451)**

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 15 to 17), cash balances, bank debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Bank debt facilities are utilised when the Managers believe it is in the interest of the Company to financially gear the portfolio. Note 1 sets out the accounting policies, including criteria for recognition and the basis of measurement applied for significant financial instruments excluding cash at bank which is carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main risks that the Company faces arising from its financial instruments are:

(i) *interest rate risk*, being the risk that the interest receivable/payable and the market value of investment holdings may fluctuate because of changes in market interest rates;

(ii) *liquidity risk* 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 values or from the inability to generate cash inflows as required;

(iii) *credit risk* is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(iv) *market price risk*, being the risk that the market value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to any significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

18 Financial instruments *(continued)*

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate which at 31 December 2013 was 0.5% (2012: 0.5%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. The Company's investment portfolio is not directly exposed to interest rate risk.

The Company has a bank debt facility of £100,000,000 of which £32,000,000 was drawn down as at 31 December 2013 (2012: debt facility of £100,000,000, of which £46,750,000 was drawn down). Further details of this facility can be found in Note 11.

If LIBOR and the bank base rate had increased by 1%, the impact on the profit or loss and therefore Shareholders' equity would have been negative £320,000 (2012: negative £468,000). If LIBOR and the bank base rate had decreased by 0.5%, the impact on the profit or loss and therefore Shareholders' equity would have been a positive £160,000 (2012: positive £234,000). There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though short term funding flexibility can typically be achieved through the use of bank debt facilities. The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the bank debt facility. Further details of this facility can be found in Note 11.

(iii) Credit risk

The Company invests in UK equities traded on the London Stock Exchange. Investment transactions are carried out with a large number of FCA regulated brokers with trades typically undertaken on a delivery versus payment basis and on a short settlement period.

Cash at bank is held with reputable banks with acceptable external credit ratings.

The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the custodian may be delayed or limited. The Board monitors the Company's risk by reviewing Northern Trust's credit ratings.

The exposure to credit risk at the year-end comprises:

	2013 £'000	2012 £'000
Investment income receivable	**2,067**	1,820
Cash at bank	**536**	259
	2,603	2,079

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. Further information on the investment portfolio is set out in the Managers' Report on pages 9 to 13. It is not the Managers' policy to use derivatives or hedging instruments to manage market price risk.

If the investment portfolio valuation fell by 20% at 31 December 2013, the impact on the profit or loss and therefore Shareholders' equity would have been negative £233.5m (2012: negative £162.7m). If the investment portfolio valuation rose by 20% at 31 December 2013, the impact on the profit or loss and therefore Shareholders' equity would have been positive £233.5m (2012: £162.7m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

18 Financial instruments *(continued)*

As at 31 December 2013, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio consisted of listed investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Contractual maturity analysis for financial instruments
As at 31 December 2013

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Cash at bank	**536**	–	–	–	–	**536**
Investment income receivable	**1,600**	**467**	–	–	–	**2,067**
Amounts due from brokers	–	–	–	–	–	–
Other debtors	**10**	**19**	**24**	–	–	**53**
Total current assets	**2,146**	**486**	**24**	–	–	**2,656**
Liabilities:						
Bank debt facility	–	–	**32,000**	–	–	**32,000**
Unamortised costs	–	–	**(13)**	–	–	**(13)**
Amounts due to brokers	–	–	–	–	–	–
Other creditors	**73**	**101**	–	–	–	**174**
Total liabilities	**73**	**101**	**31,987**	–	–	**32,161**
Net liquidity of continuing operations	**2,073**	**385**	**(31,963)**	–	–	**(29,505)**

Contractual maturity analysis for financial instruments
As at 31 December 2012

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Cash at bank	**259**	–	–	–	–	**259**
Investment income receivable	**1,703**	**117**	–	–	–	**1,820**
Amounts due from brokers	–	–	–	–	–	–
Other debtors	**5**	**10**	**22**	–	–	**37**
Total current assets	**1,967**	**127**	**22**	–	–	**2,116**
Liabilities:						
Bank debt facility	–	–	–	**46,750**	–	**46,750**
Unamortised costs	–	–	–	**(64)**	–	**(64)**
Amounts due to brokers	**444**	–	–	–	–	**444**
Other creditors	**74**	**59**	–	–	–	**133**
Total liabilities	**518**	**59**	–	**46,686**	–	**47,263**
Net liquidity of continuing operations	**1,449**	**68**	**22**	**(46,686)**	–	**(45,147)**

Notes to the Financial Statements

18 Financial instruments *(continued)*

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2013

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	**–**	**233**	**32,080**	**–**	**–**	**32,313**
Amounts due to brokers	**–**	**–**	**–**	**–**	**–**	**–**
Other creditors	**–**	**174**	**–**	**–**	**–**	**174**
	–	**407**	**32,080**	**–**	**–**	**32,487**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2012

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	–	284	865	47,132	–	48,281
Amounts due to brokers	–	444	–	–	–	444
Other creditors	–	133	–	–	–	133
	–	861	865	47,132	–	48,858

Capital Management Policies and Procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and
– to support the Company's objective.

This is achieved through the appropriate balance of equity capital and gearing. Further details can be found in the Strategic Report.

19 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2013 (2012: nil). The Company may be able to recover further amounts in respect of VAT charged on investment management fees. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Shareholder Information

Introduction

Aberforth Smaller Companies Trust plc is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2013, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

Shareholder register enquiries

All administrative enquiries relating to Shareholders such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or to be placed on a mailing list should be addressed to the Company's registrars:

Shareholder Services Department, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. Tel: 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday to Friday). Fax: 01484 600 911.
Email: shareholder.services@capitaregistrars.com. Website: www.capitaregistrars.com

Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars, whose address is given above, to pay them directly into a bank account; tax vouchers are then mailed to Shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. The Company also operates a Dividend Re-investment Plan to allow Shareholders to use their cash dividends to buy shares easily and at a low cost via the Company's registrars from whom the necessary forms are available.

Sources of further information

The prices of the Ordinary Shares are quoted daily in the Financial Times, The Herald, The Times and The Scotsman. The price, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.FT.com and www.theaic.co.uk. Company performance and other relevant information are available on the Managers' website at www.aberforth.co.uk and are updated monthly.

How to invest

The Company's Ordinary Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker, by asking a professional adviser to do so, or through most banks. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, PEPs, Savings Schemes or Pension Plans.

Security Codes

	SEDOL	Bloomberg	Reuters
Ordinary Shares of 1p	0006655	ASL LN	ASL.L

Continuation Vote

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2014 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

Retail Distribution

The Company currently conducts its affairs, and intends to continue to conduct its affairs, so that its Ordinary Shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.

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

Shareholder Information

ISA Status

The Company's Ordinary Shares are eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account (ISA).

AIC

The Company is a member of The Association of Investment Companies which produces a detailed Monthly Information Service on the majority of investment trusts. This can be obtained by contacting The Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY Website: www.theaic.co.uk; Tel: 020 7282-5555.

Financial Calendar

Results	For the half year to 30 June announced For the full year to 31 December announced	July January
Ordinary Share Dividends	*Interim* Ex-dividend Payable *Final* Ex-dividend Payable	 July/August September January/February March
Interim Report	Published	July
Annual Report and Accounts	Published	January/February
Annual General Meeting		February
Publication of Net Asset Values		Daily (via the Managers' website)

Glossary Terms

"Discount" is the amount by which the stockmarket price per Ordinary Share is lower than the Net Asset Value per Ordinary Share. The discount is normally expressed as a percentage of the Net Asset Value per Ordinary Share.

"Ongoing Charges" is the total cost of investment management fees and other operating expenses as a percentage of the average published net asset value over the period (calculated per AIC guidelines).

"Gearing" represents borrowings by an investment trust to buy investments if the Managers expect stockmarkets ro rise, with a view to making a greater return on the money borrowed than the cost of the borrowing. If stockmarkets rise, gearing can increase the Company's returns, but, if they fall, losses will be greater.

"Market Capitalisation" of a Company is calculated by multiplying the stockmarket price per Ordinary Share by the total number of Ordinary Shares in issue.

"Net Asset Value", also described as Shareholders' funds, is the value of total assets less liabilities. Liabilities for this purpose include borrowings as well as current liabilities. The Net Asset Value per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

"Net Asset Value Total Return" represents the theoretical return on Shareholders' funds per share assuming that net dividends (gross dividends prior to 2 July 1997) paid to Shareholders were reinvested at the Net Asset Value at the time the shares were quoted ex-dividend.

"Premium" is the amount by which the stockmarket price per Ordinary Share exceeds the Net Asset Value per Ordinary Share. The premium is normally expressed as a percentage of the Net Asset Value per Ordinary Share.

Notice of the Annual General Meeting

Notice is hereby given that the Twenty-third Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 27 February 2014 at 6.30 p.m. for the following purposes:

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the Report and Accounts for the year ended 31 December 2013 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2013 be approved.
3. That the Directors' Remuneration Policy be approved.
4. To declare a final dividend of 16.15p per share.
5. That Prof P R Marsh be re-elected as a Director.
6. That Mr D J Jeffcoat be re-elected as a Director.
7. That Mr R A Rae be re-elected as a Director.
8. That Mr S P Trickett be re-elected as a Director.
9. That Mrs J Le Blan be elected as a Director.
10. That Mrs P M Hay-Plumb be elected as a Director.
11. That Deloitte LLP be re-appointed as Auditor.
12. That the Directors be authorised to fix the remuneration of the Auditor for the year to 31 December 2014.
13. That the Company continues to manage its affairs as an investment trust (as defined by Section 1158 of the Corporation Tax Act 2010).

To consider and, if thought fit, pass the following Special Resolution:

14. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 1p each in the capital of the Company ("Shares"), provided that:
    (a) the maximum number of Shares hereby authorised to be purchased shall be 14,297,880 (or if less, 14.99% of the issued share capital of the Company on the date on which this resolution is passed);
    (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;
    (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) 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 on the trading venue where the purchase is carried out;
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2015 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2015, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

Aberforth Partners LLP, *Secretaries*
28 January 2014

Notes to the Notice of the Annual General Meeting

1. **Attending the Annual General Meeting in person**

   A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and, vote on his/her behalf. Such a proxy need not also be a member of the Company.

2. **Appointment of Proxy**

   A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the registrar's web site at www.capitashareportal.com and follow the instructions on screen. You will require your investor code. CREST users should note they can lodge their proxy votes for the meeting through the CREST proxy voting system. For further instructions users should refer to the CREST User Manual. Any CREST personal members or other CREST sponsored members and other CREST members who have appointed a voting service provider(s) should contact their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

   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 R055) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   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.

   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.

   You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Registrars of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

3. **Entitlement to attend and vote**

   To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30 p.m. on 25 February 2014 (or, if the Annual General Meeting is adjourned, at 6.30 p.m. on the day two days (excluding non working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

Notes to the Notice of the Annual General Meeting

4. **Questions and Answers**

   Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question which is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question, within a reasonable period of days after the conclusion of the AGM.

5. **Total Voting Rights**

   As at 28 January 2014, the latest practicable date prior to publication of this document, the Company had 95,382,792 Ordinary Shares in issue with a total of 95,382,792 voting rights.

6. **Shareholder disclosure obligations**

   Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

7. **Information on the Company's website**

   In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website www.aberforth.co.uk

8. **Nominated Persons**

   Any 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 such person and the shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered shareholder as to the exercise of voting rights.

9. **Audit concerns**

   The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the registered address of the Company.

10. **Documents available for inspection**

    The Directors' letters of appointment and a copy of the articles of association of the Company will be available for inspection for 15 minutes prior to the Annual General Meeting and during the meeting.

Corporate Information

Investment Managers and Secretaries

Aberforth Partners LLP
14 Melville Street
Edinburgh EH3 7NS
Tel: 0131 220 0733
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

Registered Office and Company Number

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Registered in Scotland No. 126524

Registrars

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Woodsome Park
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Tel: 0871 664 0300 (calls cost 10p per minute plus network extras)
Website: www.capitaregistrars.com

Bankers

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh EH2 2YB

Custodian

The Northern Trust Company
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Canary Wharf
London E14 5NT

Independent Auditor

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Edinburgh
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Solicitors and Sponsors

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