Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2014

Contents

Strategic Report

The Board is pleased to present the Strategic Report which incorporates the Chairman's and Manager's Statements.

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) or benchmark) over the long term.

The Company has appointed Aberforth Partners LLP as the investment managers. Further information can be found on page 19.

Financial Highlights

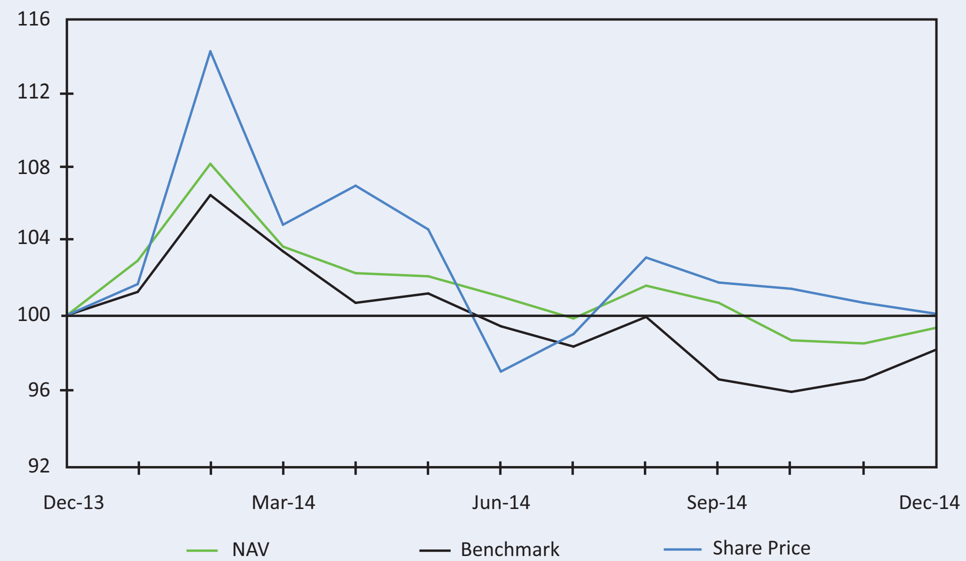
Year to 31 December 2014

Total Return Performance	% change
Net Asset Value	**-0.7**
Numis Smaller Companies Index (excl. Investment Companies)	**-1.9**
Ordinary Share Price (with net dividends reinvested)	**+0.1**

	31 December 2014	31 December 2013	% Change
Shareholders' Funds	**£1,107.3m**	£1,138.1m	-2.7%
Market Capitalisation	**£1,022.1m**	£1,044.4m	-2.1%
Actual Gearing employed	**2.8%**	2.6%	N/A
Ordinary Share net asset value	**1,161.41p**	1,193.22p	-2.7%
Ordinary Share price	**1,072.00p**	1,095.00p	-2.1%
Ordinary Share discount	**7.7%**	8.2%	N/A
Revenue per Ordinary Share	**27.24p**	27.37p	-0.5%
Dividends per Ordinary Share	**24.75p**	23.50p	+5.3%
Ongoing charges	**0.82%**	0.79%	N/A
Portfolio turnover	**35.9%**	40.1%	N/A

One Year Performance

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2013)



Chairman's Statement

Review of 2014 performance

In last year's report my predecessor pointed out that the strong returns of 2012 and 2013 were unlikely to be matched in 2014 and indeed the year proved tougher for small UK quoted companies when compared with the strong returns of the previous two years. The FTSE 100 Index gave a total return of +0.7% while the FTSE All-Share Index, which is heavily weighted towards large companies, delivered a return of +1.2%. By comparison, the Numis Smaller Companies Index Excluding Investment Companies (NSCI (XIC)), the Company's benchmark, produced a return of -1.9%. Over the same period, the Company's net asset value total return was -0.7% while the share price total return was +0.1%.

The Managers' Report gives much greater detail to the headline numbers and expands on the influences and factors that have affected the Company's performance in 2014.

Board changes

In October 2014 I became Chairman of the Company replacing Professor Paul Marsh. Paul was an excellent Chairman and Director of the Company over a ten year period. We will all miss his invaluable contribution and his knowledge of the investment landscape. He did a superb job for investors in the Company and leaves with our very best wishes.

I am delighted to be the Company's fourth Chairman since its formation in 1990 (even though it feels a little like being asked to follow Alex Ferguson!) and, along with my Board colleagues, look forward to working with the Managers to help extend the excellent long term record.

Dividends

The Company witnessed a continuation of the recent positive trends with regard to dividend experience from investee companies. In this context, the Board is pleased to propose a final dividend of 17.0p. This results in total dividends for the year of 24.75p, representing an increase of 5.3% on 2013. Based on the year end share price of 1,072p, the Company's shares deliver a historic 2.3% yield.

The Board remains committed to a progressive dividend policy. The Company's revenue reserves, after adjusting for payment of the final dividend, amount to 38.6p per share (up from 36.1p as at 31 December 2013) and provide a degree of flexibility going forward.

The final dividend, subject to Shareholder approval at the 2015 Annual General Meeting, will be paid on 5 March 2015 to Shareholders on the register as at the close of business on 13 February 2015. The ex dividend date is 12 February 2015. ASCoT operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Capita Registrars. Contact details can be found on the inside back cover.

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 24 year history. As reported in the Interim Report, the previous debt facility expired in May 2014 and this was replaced with a new £125m facility from The Royal Bank of Scotland plc. The new facility is on improved terms and is due to expire on 15 June 2017. The facility provides the Managers with flexibility in accessing liquidity for investment purposes, as well as the ability to fund share buy-ins without disturbing the underlying portfolio. At the year end, gearing stood at 2.8% of Shareholders' funds. During the year, the level of gearing ranged from 0.2% to 3.6% with an average of 2.3%.

Share buy-in

At the Annual General Meeting in March 2014, the authority to buy in up to 14.99% of the Company's Ordinary Shares was approved. During the year, 38,000 Ordinary Shares (0.04%) were bought in at a total cost of £0.4 million. Those Shares have been cancelled rather than held in Treasury. Once again, the Board will be seeking to renew the buy-in authority at the Annual General Meeting on 27 February 2015.

Scottish Independence

Whilst the outcome of the referendum on Scottish Independence was that Scotland should remain within the United Kingdom, constitutional changes appear now to be a fixture on the political agenda. The Board's stance on this is unchanged: we will continue to monitor developments and be prepared to take such actions as may be appropriate and in the interest of Shareholders as a whole.

Chairman's Statement

Summary

The Company will move past the quarter century landmark in 2015. The continuation vote held in 2014 was enthusiastically supported by the vast majority of shareholders. It is of course an election year and by the time I write to Shareholders with the Interim Report in July the Company will have experienced its sixth General Election and potentially its fifth Prime Minister. Domestic political uncertainty is at a high level and is likely to remain so at least up to and possibly beyond the date of the election. Investment trusts, with their fixed capital structures, have a long tradition of navigating both economic and political change. Regardless of the outcome of the election, the Board continues to have confidence in both the Managers and their value investing style. The Board has a clear view that this style and the exposure to smaller companies will reward investors in the long term but are very conscious that there will be possibly quite long periods when both may be out of fashion. However, it is our belief that this combination has been central to generating the excellent long term returns of the Company. Since our formation in 1990, the NSCI (XIC) has risen by +11.2% per annum in total return terms. By comparison, the Company's net asset value total return has been +14.1% per annum.

Finally, the Board very much welcomes the views of Shareholders and is always available to talk to them directly. My email address is noted below.

Paul Trickett
Chairman
29 January 2015
paul.trickett@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 2015 (the date of the last annual index rebalancing), the index included 369 companies, with an aggregate market capitalisation of £157 billion, and its upper market capitalisation limit was £1.265 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 £125m three year bank facility in place and the level of gearing has, during 2014, ranged from 0.2% to 3.6%. Further details can be found in note 12 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 Company's holdings will usually be on a lower valuation metric ratio than the average for 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 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 Board carefully considers the principal risks faced by the Company and seeks to manage these risks through continual review, evaluation and taking action as necessary.

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. In addition, the Company has a simple capital structure 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 and liquidity (refer to Note 18 for further details). *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 with a well defined investment process 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. The Board intends to continue to use the share buy-in facility to seek to sustain as low a discount as seems possible.*

(iii) Gearing risk – in rising markets, gearing would enhance returns; however, in falling markets the gearing effect would adversely affect returns to Shareholders. *The Board and the Managers consider 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/or the key service providers and take action if appropriate.*

(v) Risk appetite – the effect of inappropriate investment 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 detailed portfolio 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*.

Other Information

Board Diversity

The Board recognises the importance of diversity in its broadest sense (including skills, experience, gender and tenure) in enabling it to fulfil the present and future needs of the Company. As at 31 December 2014, there were three male Directors and two female Directors.

Environmental, Human Rights, Employee, Social Community Issues

The requirement to detail information about environmental matters, human rights, social and community issues do not apply to the Company as it has no employees; all Directors are non-executive and it has outsourced its functions to third party service providers.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objective against key performance indicators: net asset value total return; share price total return; relative performance; and share price discount to net asset value. 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

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2014	**-0.7**	**-1.9**	**0.1**
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

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2014	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2012	23.0	15.9	27.3	51.3	34.4	62.1
3 years from 31 December 2011	25.9	20.4	32.6	99.6	74.6	133.3
4 years from 31 December 2010	14.6	12.2	17.4	72.7	58.7	90.2
5 years from 31 December 2009	16.9	15.3	18.5	118.6	103.9	133.6
6 years from 31 December 2008	21.1	21.9	24.5	215.6	227.7	271.9
7 years from 31 December 2007	9.6	9.9	12.6	90.5	93.9	129.3
8 years from 31 December 2006	6.9	7.5	8.3	70.7	77.8	89.6
9 years from 31 December 2005	8.9	9.6	9.1	115.6	127.6	118.1
10 years from 31 December 2004	10.4	11.3	10.6	169.3	190.8	172.9
15 years from 31 December 1999	11.8	8.5	12.4	435.1	238.9	477.3
20 years from 31 December 1994	13.2	10.6	13.0	1,091.1	651.0	1,057.1
24.1 years from inception on 10 December 1990	14.1	11.2	13.8	2,285.8	1,186.2	2,125.6

Ten Year Summary

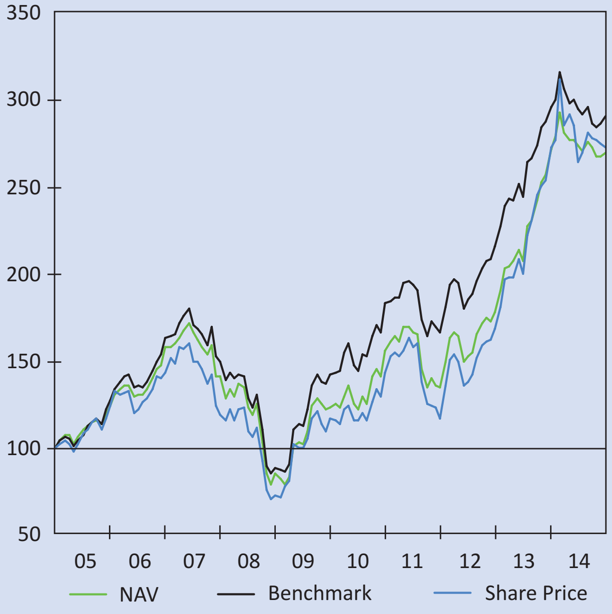
As at 31 December	Net asset Value per Share p	Share Price p	Discount %	Revenue per Ordinary Share[1] p	Dividends per Ordinary Share net p	Ongoing Charges %	Gearing %
2014	**1,161.4**	**1,072.00**	**7.7**	**27.24**	**24.75**	**0.82**	**2.8**
2013	1,193.2	1,095.00	6.7	27.37	23.50	0.79	2.6
2012	802.8	695.50	13.4	26.07	22.25	0.81	5.9
2011	627.3	501.00	20.1	24.13	20.75	0.88	11.1
2010	743.8	632.50	15.0	18.11	19.00	0.85	7.3
2009	605.9	534.00	11.9	17.35	19.00	0.85	7.7
2008	437.7	351.25	19.7	22.75	19.00	0.94	9.5
2007	743.9	587.00	21.1	18.38	15.20	0.86	–
2006	843.4	723.00	14.3	16.40	13.40	0.97	–
2005	679.3	640.00	5.8	14.50	11.85	0.99	–
2004[1]	553.7	522.00	5.7	13.24	11.00	0.99	–

[1] 2004 figures have been restated in line with the restated financial statements for that year.

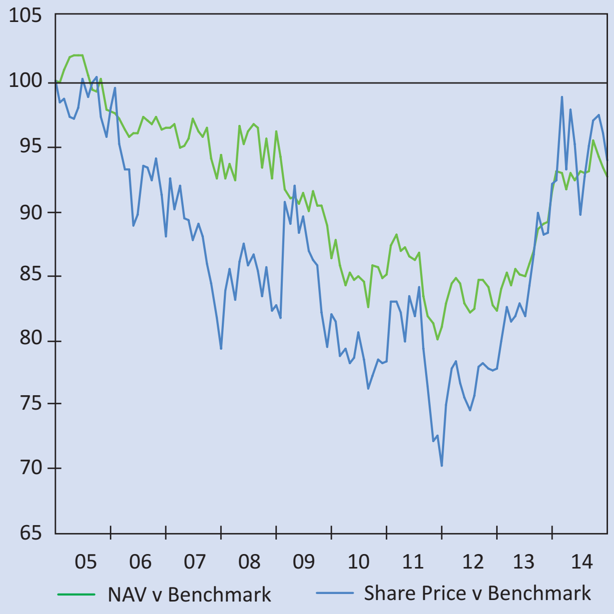
Key Performance Indicators

Ten Year Investment Summary

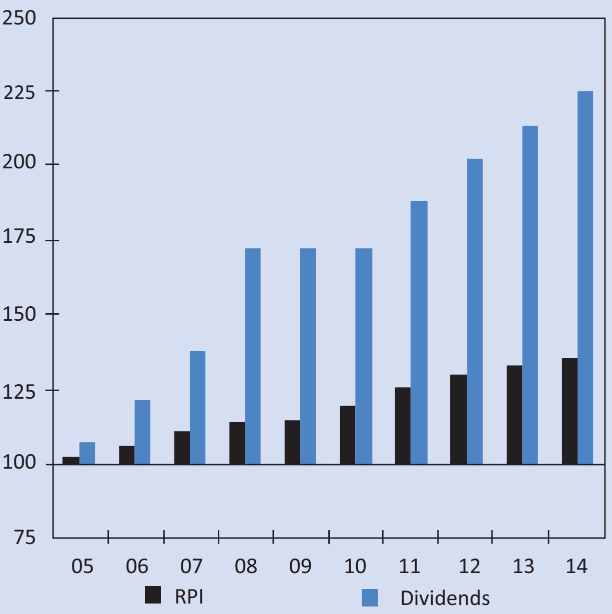
Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2004)



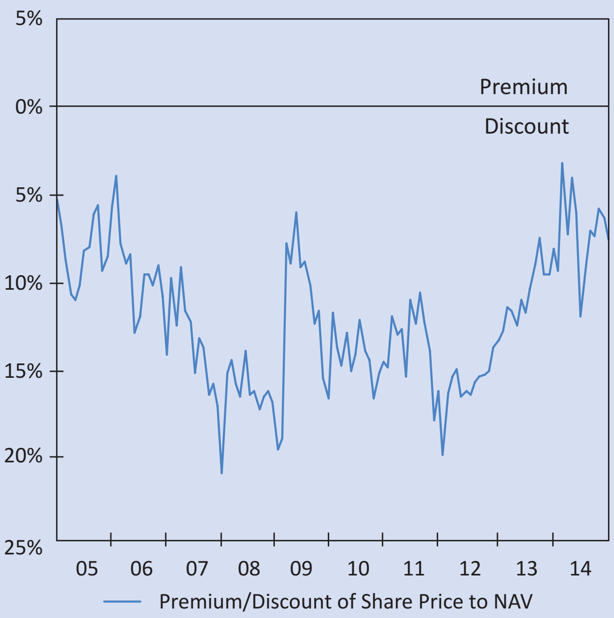
Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2004)



Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2004)



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



Managers' Report

Introduction

ASCoT's NAV total return in 2014 was -0.7%. This outcome was influenced by a weak showing from the small company asset class: the NSCI (XIC) generated a total return of -1.9%. The FTSE All-Share, which is representative of larger companies, produced a total return of 1.2%. Thus, last year brought a reversal of the pattern of very strong returns from smaller companies in recent years. Over the five years to 31 December 2014, the total return of small companies has been 104%, against 52% for large.

The modest movements of UK equities in 2014 are in contrast to some remarkable gyrations in the broader financial markets.

- Government bond yields, which rose sharply in 2013, headed downwards again in 2014. In the US, ten year treasury yields were 3.0% at the start of the year, experienced an extraordinary dip to 1.7% in October and stood at 2.2% at the year end. Gilts yields followed a similar path, falling from 3.0% to 1.8%. The decline was influenced by a reassessment of the outlook for economic growth, as Japan and the Eurozone in particular disappointed expectations. Also influential were the anticipation of quantitative easing in the Eurozone and more stimulus in Japan. These offset the "tapering" of the US's own quantitative easing programme.

- Among equity markets, the performance of the US stockmarket, the world's largest, stood out. The S&P 500 rose by 11% and ended the year close to its all time high. Helping this performance was the relative buoyancy of the US economy. Its recovery from the global financial crisis has seen it resume its pre-eminence in the context of the global economy. However, growth in gross domestic product was not the sole determinant of equity performance. The UK market struggled, despite a better than expected outturn for economic growth, which in part reflects its significant exposure to oil companies. In contrast, Germany and Japan, whose economies have disappointed, saw their equity markets achieve positive returns in 2014.

- Currency movements change the picture. The US dollar was particularly strong in 2014, rising by 13% on a trade-weighted basis. Thus, in dollar terms, the positive returns of the German and Japanese markets lapse into negative territory: for example, Germany's Dax was up by 3% in euro terms but down by 10% in dollar terms. Periods of dollar strength are frequently awkward affairs for other parts of the world economy, challenging established financial relationships and hampering global trade.

- The strong dollar exerted pressure on the prices of commodities through 2014. Of these, oil stands out. Its 46% price decline over the year accelerated in the final quarter as the impact of weaker demand, the US shale boom and OPEC's reluctance to cut production were digested. The share prices of oil companies duly suffered, though other stockmarket sectors ought to be beneficiaries of lower oil prices.

The aforementioned price movements are often contradictory and imply large swings in relative valuations between asset classes. Against this background, the tasks of running small UK quoted companies or of making investment decisions about those companies are inevitably complicated. The burden has been eased somewhat by the performance of the UK economy, which accounts for around half of the revenues of the small cap universe. Challenges to the domestic economy remain. Among these are several more years of austerity, wage growth that struggles to exceed the rate of inflation, and a particularly uncertain political environment. However, the recovery continued through 2014 and helped small companies generate earnings growth of around 8%. This was lower than market expectations at the start of the year, as is usually the case. It is, though, an acceptable outcome, especially when backed up by dividend growth of a similar magnitude.

Managers' Report

Investment performance

ASCoT's NAV total return in 2014 was -0.7%, against the NSCI (XIC)'s total return of -1.9%. That relative performance is analysed in the table below. The following paragraphs describe the principal influences on performance in 2014.

For the 12 months ended 31 December 2014	Basis points
Stock selection	280
Sector selection	(40)
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 29 basis points)	240
Movement in mid to bid price spread	(43)
Cash/gearing	0
Purchase of Ordinary Shares	0
Management fee	(76)
Other expenses	(6)
Total attribution based on bid prices	**115**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = –0.70%; Benchmark Index = –1.85%; difference is 1.15% being 115 basis points).

Sectors

The portfolio's sector positions, and thus the contributions from sector selection shown in the preceding table, are usually the outcome of the Managers' bottom-up stock selections. But, in view of the recent weakness of the oil price, a general comment on the oil and gas sector is merited. Towards the end of 2013, exposure to the sector was increased in a meaningful way for the first time in around a decade. This was motivated by the low valuations of several small oil companies, whose share prices had fallen sharply over recent years in response to industry-wide cost pressures and deteriorating returns on marginal investment. Such were the declines that a phase of consolidation had started. The message in this consolidation was that it was becoming cheaper to own oil reserves through M&A than to produce them by drilling another hole. Indeed, the portfolio benefited from this consolidation as one of its oil holdings was acquired. However, the takeover of another oil holding towards the end of the year was thwarted by the precipitous drop in the oil price. This has provoked a reassessment of their investment plans by oil companies and has put significant pressure on share prices. The pressure was sufficient to render many mid cap oil companies eligible for inclusion in the NSCI (XIC) on its annual rebalancing. The impact of these means that the NSCI (XIC)'s weighting in Oil & Gas at 1 January 2015 was 5.8%. ASCoT's exposure was 3.7%. As they have done in other sectors over the years, the Managers will look to take advantage of an indiscriminate sell-off in share prices that becomes unfairly reflected in the valuations of small oil companies.

Style & size

On its 1 January 2015 rebalancing, the NSCI (XIC)'s largest constituent had a market capitalisation of £1,265m. The index thus encompasses a large portion of mid cap companies. Indeed, the overlap with the FTSE 250 represents 67% by value of the NSCI (XIC). Motivated by relative valuations, the portfolio has a relatively low exposure to this mid cap component. This positioning was unhelpful in 2014, as the returns of the FTSE 250 (+2.8%) and the FTSE SmallCap (-2.7%) suggest.

Meanwhile, the Managers' value investment style, which boosted returns in 2013, played a much less significant role in 2014. Indeed, such was the narrowness of the gap between value and growth that one of the style data providers used by the Managers, London Business School, suggested that value under-performed growth, while the other, Style Research, suggested the reverse. Hindering the value style in 2014 were the relapse in bond yields and flattening of yield curves, which, all else being equal, tend to favour the prospects of growth companies. On the other hand, for a variety of company specific reasons, some growth stocks encountered trading difficulties in 2014. From lofty valuations, these often experienced substantial falls in their share prices. ASCoT benefited in a relative performance sense from not owning these companies. In certain cases, the de-rating has been such that they are starting to measure up to the Managers' value investment criteria.

Dividends

The dividend performance of small companies in 2014 was good. Mid to high single digit growth across the small cap universe extended to five years the run of dividend growth above its long term average. Of course, part of the reason for this record is the starting point: many small companies cut their dividends in the recession of 2009. The other

Managers' Report

important reason for the recent strong growth in dividends also has its roots in the global financial crisis. To generalise, in the years leading up to 2008, companies were able to forget about their shareholders: all the marginal financing they required came from the banks. The crisis changed this: banks came under pressure to deleverage and it was the shareholders that kept many companies solvent in 2009 with rescue rights issues. These events have reinforced the priorities of company boards, one manifestation of which is the growth in dividends.

ASCoT has shared in this trend. The table below categorises the portfolio's 88 companies according to their most recent dividend action. It is pleasing to note that the largest category is represented by those that increased their dividends; among these, the median rate of increase was 9%. The 'Other' category includes those companies with no meaningful comparison, i.e. IPOs in 2014 and other companies that have started paying dividends.

Band	Nil	Down	Flat	Up	Other
No. of holdings	20	7	11	44	6

The other notable category is 'Nil', which comprises those companies that have not paid a dividend over the past 12 months. These 20 companies account for 17% of the portfolio by weight: this is a high level of exposure for ASCoT to nil payers. The corollary of this exposure is average dividend cover for the 88 holdings of 3.0x, which is also towards its highest ever level. The Managers have not lost their fondness for dividends. However, in 2014 some of the most attractively valued opportunities happened to be nil yielding. Crucially, the Managers consider that many of the 20 nil yielders will be capable of (re)commencing dividend payments over the next few years. As they do so, income generated by the portfolio will be boosted, all else being equal.

Strong balance sheets

Managers' reports of recent years have referred to the strong balance sheets that characterise both the portfolio companies and the small company universe. This remains the case. The proportions exposed to companies with net cash on their balance sheet stood at 31% and 26% respectively at the end of the year. These proportions have been moving downwards since 2011. The Managers believe that, in reaction to the global financial crisis, balance sheets had in many cases been taken to levels that were unnecessarily strong. This conservatism was hampering growth prospects. Thus, the lower proportion now holding cash suggests that company boards have had greater confidence to invest or, in the absence of attractive investment opportunities, return cash to shareholders.

Corporate activity

The powerful pick-up in corporate activity through 2014 may be considered another indication of increasing corporate confidence. As described in the interim report, the first half was dominated by IPOs. The pace slackened through the second half as markets grew more nervous and as vendors became too ambitious with regard to valuations. Nevertheless, 27 IPOs eligible for inclusion in the NSCI (XIC) were completed in 2014. These had a cumulative market capitalisation of £13.4bn. Other issuance, in the form of rights issues or placings, totalled a further £4.8bn. This makes 2014 the year of highest equity issuance since 2009 when the financial crisis prompted rescue rights issues. There were four 2014 IPOs in ASCoT's portfolio at the year end.

As IPO activity waned in the second half of the year, M&A activity waxed. By 31 December 2014, the takeovers of 12 NSCI (XIC) constituents had been concluded. In addition, there were incomplete bids, approaches or talks in progress for another 10. In 2013, the quietest year for small company M&A since 1955, only 5 deals were completed. The value of 2014's deals totalled £12.9bn, an impressive number, but one that is nevertheless eclipsed by the value of issuance.

ASCoT's participation in the M&A upswing was considerable. Of the 22 deals noted above in the NSCI (XIC), ASCoT had holdings in 9. The takeover premiums were often large, ranging from 25% to 85%. Over the years, a meaningful boost to returns from M&A has not been unusual. Indeed, the Managers are inclined to view this as a result and validation of their value investment approach.

Active share

Active share is a measure of how different a portfolio is from its benchmark index. Since the publication of a research paper in 2009, it has risen in prominence as a measure of fund managers' conviction in the stocks they choose to own. Fuller detail on the paper's authors and on the calculation of the ratio is given in the glossary on page 52. In simple terms, the higher the ratio, the higher is the probability that the portfolio will perform out of line with the benchmark, for better or worse. The Managers target an active share ratio of at least 70%, though will tolerate a temporarily depressed number, and consider the impact on the portfolio's active share ratio as part of the investment process. The year end portfolio's active share was 76%. This was affected by holdings in companies that, following the 1 January rebalancing, are no longer part of the NSCI (XIC). As these holdings are sold in an orderly fashion over the coming months, the active share ratio will fall to the extent that the proceeds are reinvested in new holdings that are part of the index.

Turnover

Over the twelve months to 31 December 2014, portfolio turnover was 36%. In two circumstances, ASCoT is effectively a forced seller of holdings. First, companies that have grown too large to remain eligible for the NSCI (XIC) are ejected on the 1 January annual rebalancing. Second, in M&A situations, it is clearly not possible to remain a holder of the target company, again necessitating sale. With the pronounced pick-up in M&A through the year, it was the second of these that was particularly influential in keeping turnover above the historic average for a second year. Adjusting for these exceptions, ASCoT's portfolio turnover was 25% in 2014, which is in line with the long term underlying average.

Valuations

The table on page 11 shows the historic valuation data for the portfolio and the NSCI (XIC). The 13.2x PE ratio of small companies compares with 13.8x for the FTSE All-Share, which is representative of large companies. This 4% discount is tighter than the long term average of 7%. However, at the end of 2013, small companies were on a 5% premium to large. History suggests that such a state of affairs does not persist for long. This is a reasonable explanation for the under-performance of small companies against large in 2014.

A note of caution is warranted in the quirky UK stockmarket. There are four very large sectors in the FTSE 100 – Banks, Oils, Miners and Pharmaceuticals. The market capitalisation of each of these is larger than that of the entire small cap universe. This means that the merits of these four sectors should be considered before making a decision on size exposure.

	31 December 2014		31 December 2013	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**88**	**369**	92	363
Weighted average market capitalisation	**£614m**	**£754m**	£646m	£833m
Price earnings ratio (historic)	**13.0x**	**13.2x**	13.6x	16.8x
Dividend yield (historic)	**2.5%**	**2.5%**	2.3%	2.2%
Dividend cover	**3.1x**	**3.0x**	3.2x	2.7x

Turning to the portfolio, the average PE of the 88 investee companies was 13.0x, which is 2% lower than that of the NSCI (XIC). On the basis of dividend yields, the portfolio is, unusually, not on a premium to the small cap universe. As described above, this is a function of the presently high exposure of the portfolio to nil yielding companies, which also increases the overall dividend cover.

However, the portfolio is not constructed with reference to historic PE ratios. Rather the Managers' favoured valuation metric is the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Topically, given the high incidence of M&A within the portfolio in 2014, this valuation approach is aligned with how one company might assess another, since a bidding company can determine the means of funding an acquisition and often how the enlarged entity will be taxed. The table below shows the forward EV/EBITA ratio for the portfolio, the tracked universe and two subdivisions of the tracked universe: 43 growth stocks and 256 other companies.

2015 EV/EBITA ratio			
43 growth companies	256 other companies	Tracked Universe	ASCoT's portfolio
15.6x	10.3x	11.0x	9.3x

The portfolio retains a pronounced valuation advantage over the growth companies and the broader small company universe. This is consistent with the Managers' value investment discipline. It is the Managers' contention that this valuation advantage can form the basis of superior returns over the longer term. An additional reference point is the average EV/EBITA multiple of the eight portfolio companies that have received bids during the year, using the takeover price. That average is around 13x, within a range of 7x to 32x. In comparison with the portfolio's 9.3x EV/EBITA ratio, this may be interpreted as another gauge of the good value inherent in the portfolio.

Managers' Report

Outlook & conclusion

From a macro economic perspective, the world's rediscovered reliance on the US economy became increasingly obvious in 2014. Japan has had to resort to another round of quantitative easing and the Eurozone continues to flirt with embracing quantitative easing for the first time. However, the US appears to have succeeded, albeit with the odd hiccup, in weaning itself off the need for incremental stimulus. The pre-eminence of the US has been reinforced by the transformation of its reliance on the rest of the world for its energy requirements: self-sufficiency, by virtue of the shale boom, appears within reach. The implications of these developments were reflected by financial markets in 2014: treasury yields, though down over the year, are higher than those of other major bond markets; US equities are at all time high levels; the dollar has strengthened considerably; and the oil price has collapsed.

Understanding the ramifications of such movements is not straightforward, but it is safe to conclude that the US's leadership, while crucial to the overall health of the global economy, will not prove painless for all. Such uncertainty comes on top of sluggish economic growth from Europe and Japan, heightened tensions with Russia, and an intensification of hostilities in the Middle East. So, as usual, there is plenty for the boards of small UK quoted companies to worry about. And uncertainties also loom for the UK. These are less to do with the economy's direction in the immediate future, which, despite some disappointment with the budget deficit, still seems more akin to the US's than the Eurozone's. More significant is the perpetuation of a period of political and constitutional uncertainty, which started with 2010's coalition government, continued with the Scottish referendum and could persist until 2017 with an EU referendum. This type of risk is not one with which the boards of small UK quoted companies, or indeed their investors, have had to cope for generations.

In contrast to and in spite of these top down concerns, there are signs of a general cautious optimism among smaller companies. This contention is based on the combination of three factors that have been individually addressed above: the pick-up in M&A, the willingness to utilise more fully strong balance sheets and the continuation of the impressive dividend performance of recent years. While the risk remains that this growing optimism might prove a lagging rather than a leading indicator, it is encouraging that such nascent animal spirits are in evidence.

On reflection, as ASCoT enters its twenty fifth year, the present situation is not unusual. Macro economic risks of one type or another are ever-present. Generally, however, there is a disparity between top-down pessimism and optimism that individual businesses will adjust and cope. The macro economic challenges of the global financial crisis were particularly severe, but the experience of relatively nimble small companies again gives reason for hope. The Managers take additional comfort from the attractive valuations presently accorded by the stockmarket to many companies and to the portfolio in particular: these represent a discounted participation in the future wealth creation of which these businesses should be capable. This ought to translate into good returns for ASCoT's investors when averaged over several years.

Aberforth Partners LLP
Managers
29 January 2015

Thirty Largest Investments

As at 31 December 2014

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	JD Sports Fashion	48,139	4.3	Retailing - sports goods & clothing
2	Vesuvius	33,417	3.0	Metal flow engineering
3	e2v technologies	29,691	2.7	Electronic components & subsystems
4	St. Modwen Properties	29,317	2.6	Property - investment & development
5	Northgate	28,161	2.5	Van rental
6	Bovis Homes Group	27,937	2.5	Housebuilding
7	Shanks Group	27,053	2.4	Waste services
8	QinetiQ Group	26,766	2.4	R&D and consulting services
9	Flybe Group	26,466	2.4	Airline
10	Go-Ahead Group	25,507	2.3	Bus & rail operator
	Top Ten Investments	302,454	27.1	
11	Morgan Advanced Materials	23,817	2.2	Manufacture of carbon & ceramic materials
12	FirstGroup	23,567	2.1	Bus & rail operator
13	Spirit Pub Company	23,023	2.1	Managed pub operator
14	Tullett Prebon	21,129	1.9	Interdealer broker
15	Optos	20,646	1.9	Medical technology - retinal imaging
16	RPC Group	20,474	1.8	Plastic packaging
17	Mecom Group	19,944	1.8	European newspaper publisher
18	Hansteen Holdings	18,810	1.7	Property - industrial
19	Brewin Dolphin Holdings	18,709	1.7	Private client fund manager
20	Novae Group	18,455	1.7	Lloyd's insurer
	Top Twenty Investments	511,028	46.0	
21	Hilton Food Group	18,043	1.6	Food manufacturer
22	Trinity Mirror	17,741	1.6	UK newspaper publisher
23	Mothercare	17,204	1.6	Retailing - maternity & children's products
24	International Personal Finance	16,792	1.5	Home credit provider
25	RPS Group	16,734	1.5	Energy & environmental consulting
26	Robert Walters	16,577	1.5	Recruitment
27	Grainger	16,512	1.5	Property - residential
28	Vitec Group	16,501	1.5	Photographic & broadcast accessories
29	Speedy Hire	15,812	1.4	Plant hire
30	Connect Group	15,412	1.4	Newspaper distribution
	Top Thirty Investments	678,356	61.1	
	Other Investments	460,437	41.7	
	Total Investments	1,138,793	102.8	
	Net Liabilities	(31,453)	(2.8)	
	Total Net Assets	1,107,340	100.0	

Investment Portfolio

As at 31 December 2014

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Oil & Gas Producers	**35,387**	**3.2**	**4.6**
EnQuest	5,457	0.5	
Hardy Oil & Gas	4,353	0.4	
JKX Oil & Gas	1,047	0.1	
JKX Oil & Gas 8% Convertible Bond 2018[1]	226	–	
Petroceltic International	10,363	0.9	
SOCO International	13,941	1.3	
Oil Equipment, Services & Distribution	**6,312**	**0.6**	**1.2**
Gulf Marine Services	6,312	0.6	
Alternative Energy	**–**	**–**	**0.2**
Chemicals	**13,518**	**1.2**	**2.0**
Synthomer	13,518	1.2	
Industrial Metals & Mining	**2,306**	**0.2**	**0.2**
International Ferro Metals	2,306	0.2	
Mining	**16,021**	**1.4**	**3.9**
Anglo Pacific Group	4,873	0.4	
Centamin	10,447	0.9	
Kenmare Resources	701	0.1	
Kenmare Resources Warrants 2019[2]	–	–	
Construction & Materials	**11,902**	**1.1**	**2.8**
Keller	8,827	0.8	
Low & Bonar	3,075	0.3	
Aerospace & Defence	**35,603**	**3.2**	**2.8**
Chemring Group	8,837	0.8	
QinetiQ Group	26,766	2.4	
General Industrials	**56,294**	**5.0**	**1.7**
RPC Group	20,474	1.8	
RPC Group Nil Paid Rights	2,403	0.2	
Vesuvius	33,417	3.0	
Electronic & Electrical Equipment	**63,966**	**5.8**	**2.9**
e2v technologies	29,691	2.7	
Morgan Advanced Materials	23,817	2.2	
TT Electronics	10,458	0.9	
Industrial Engineering	**39,225**	**3.6**	**2.1**
Bodycote	11,958	1.1	
Castings	9,545	0.9	
Hill & Smith Holdings	1,221	0.1	
Vitec Group	16,501	1.5	
Industrial Transportation	**14,216**	**1.3**	**1.6**
Wincanton	14,216	1.3	
Support Services	**166,603**	**14.9**	**9.9**
Acal	9,600	0.9	
Capital Drilling	1,231	0.1	
Connect Group	15,412	1.4	
De La Rue	5,697	0.5	
Hogg Robinson Group	12,409	1.1	
Management Consulting Group	3,432	0.3	
Northgate	28,161	2.5	

Investment Portfolio

As at 31 December 2014

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Support Services (continued)			
Premier Farnell	14,485	1.3	
Robert Walters	16,577	1.5	
RPS Group	16,734	1.5	
Shanks Group	27,053	2.4	
Speedy Hire	15,812	1.4	
Automobiles & Parts	**–**	**–**	**–**
Beverages	**–**	**–**	**0.7**
Food Producers	**25,086**	**2.3**	**3.3**
Hilton Food Group	18,043	1.6	
Premier Foods	5,359	0.5	
R.E.A. Holdings	1,684	0.2	
Household Goods & Home Construction	**29,677**	**2.7**	**3.2**
Bovis Homes Group	27,937	2.5	
McBride	1,740	0.2	
Leisure Goods	**7,077**	**0.6**	**0.5**
Games Workshop Group	7,077	0.6	
Personal Goods	**–**	**–**	**1.5**
Health Care Equipment & Services	**29,765**	**2.7**	**3.3**
Spire Healthcare Group	9,119	0.8	
Optos	20,646	1.9	
Pharmaceuticals & Biotechnology	**12,814**	**1.2**	**2.7**
Vectura Group	12,814	1.2	
Food & Drug Retailers	**8,367**	**0.8**	**0.6**
McColl's Retail Group	8,367	0.8	
General Retailers	**80,220**	**7.2**	**7.7**
Card Factory	14,877	1.3	
JD Sports Fashion	48,139	4.3	
Mothercare	17,204	1.6	
Media	**79,930**	**7.2**	**3.9**
Centaur Media	8,523	0.8	
Chime Communications	11,427	1.0	
Future	7,040	0.6	
Huntsworth	15,255	1.4	
Mecom Group	19,944	1.8	
Trinity Mirror	17,741	1.6	
Travel & Leisure	**106,581**	**9.6**	**7.6**
Air Partner	1,621	0.1	
FirstGroup	23,567	2.1	
Flybe Group	26,466	2.4	
Go-Ahead Group	25,507	2.3	
National Express Group	4,697	0.4	
Punch Taverns	1,700	0.2	
Spirit Pub Company	23,023	2.1	
Fixed Line Telecommunications	**14,198**	**1.3**	**1.7**
Colt Group	1,014	0.1	
KCOM Group	13,184	1.2	

Investment Portfolio

As at 31 December 2014

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Electricity	**–**	**–**	**0.5**
Gas, Water & Multiutilities	**–**	**–**	**–**
Banks	**–**	**–**	**0.5**
Nonlife Insurance	**18,455**	**1.7**	**2.1**
Novae Group	18,455	1.7	
Life Insurance	**6,085**	**0.5**	**1.2**
Hansard Global	6,085	0.5	
Real Estate Investment & Services	**75,039**	**6.8**	**6.4**
Countrywide	14,128	1.3	
Grainger	16,512	1.5	
St. Modwen Properties	29,317	2.6	
Urban&Civic	15,082	1.4	
Real Estate Investment Trusts	**28,099**	**2.5**	**4.7**
Hansteen Holdings	18,810	1.7	
McKay Securities	9,289	0.8	
Financial Services	**66,856**	**6.0**	**6.4**
Brewin Dolphin Holdings	18,709	1.7	
Charles Stanley Group	6,082	0.5	
International Personal Finance	16,792	1.5	
Paragon Group	4,144	0.4	
Tullett Prebon	21,129	1.9	
Software & Computer Services	**78,813**	**7.2**	**3.4**
Anite	14,143	1.3	
Computacenter	13,620	1.2	
Micro Focus	8,706	0.8	
Microgen	8,623	0.8	
Phoenix IT Group	12,767	1.2	
RM	13,376	1.2	
SDL	7,578	0.7	
Technology Hardware & Equipment	**10,378**	**1.0**	**2.2**
Filtronic	5,040	0.5	
Promethean World	4,743	0.4	
Spirent Communications	595	0.1	
Investments as shown in the Balance Sheet	**1,138,793**	**102.8**	**100.0**
Net Liabilities	(31,453)	(2.8)	–
Total Net Assets	**1,107,340**	**100.0**	**100.0**

[1] Convertible Bond is listed on the Luxembourg Stock Exchange.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2015.

Portfolio Information

Summary of Material Investment Transactions[1]

For the year ended 31 December 2014

Purchases	Cost[1] £'000	Sales	Proceeds[1] £'000
Countrywide	20,002	CSR	40,879
Flybe Group	18,889	F&C Asset Management	27,125
International Personal Finance	17,588	Heritage Oil	20,866
Premier Farnell	14,842	Unite Group	20,182
Vesuvius	14,732	Kofax	19,103
Urban&Civic	14,428	Carillion	18,477
Heritage Oil	13,907	WH Smith	17,012
Hogg Robinson Group	12,510	Micro Focus	16,504
Card Factory	11,520	Hyder Consulting	15,918
FirstGroup	11,392	Spirit Pub Company	15,681
Mothercare	11,206	Vectura Group	13,690
Premier Foods	11,048	Assura Group	13,344
Gulf Marine Services	8,686	RPC Group	12,928
McColl's Retail Group	8,369	Northgate	12,836
Novae Group	8,352	Galliford Try	12,691
Bovis Homes Group	8,328	Halfords Group	10,983
Keller	8,055	Interserve	10,897
McKay Securities	7,885	Stock Spirits Group	10,776
Vitec Group	7,553	Redrow	9,220
Games Workshop Group	7,187	National Express Group	8,564
Other Purchases	183,406	Other Sales	93,072
Total Purchases	**419,885**	**Total Proceeds of Sales**	**420,748**

FTSE Industry Classification Exposure Analysis

	31 December 2013					31 December 2014		
Sector	NSCI (XIC) Weight %	Weight %	Portfolio Valuation £'000	Net[1] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**Portfolio Valuation £'000**	**NSCI (XIC) Weight %**	**Weight[2] %**
Oil & Gas	5	4	44,927	19,190	(22,418)	**41,699**	**4**	**6**
Basic Materials	7	3	39,783	4,529	(12,467)	**31,845**	**3**	**6**
Industrials	28	35	406,449	(6,232)	(12,408)	**387,809**	**34**	**23**
Consumer Goods	8	5	52,686	15,467	(6,313)	**61,840**	**5**	**9**
Health Care	3	3	37,579	(2,176)	7,176	**42,579**	**4**	**6**
Consumer Services	18	21	248,755	14,997	11,346	**275,098**	**24**	**20**
Telecommunications	3	1	10,732	4,672	(1,206)	**14,198**	**1**	**2**
Utilities	1	–	–	–	–	**–**	**–**	**1**
Financials	19	17	193,953	5,069	(4,488)	**194,534**	**17**	**21**
Technology	8	11	132,766	(56,379)	12,804	**89,191**	**8**	**6**
	100	100	1,167,630	(863)	(27,974)	**1,138,793**	**100**	**100**

FTSE Index Classification Exposure Analysis

	31 December 2013				31 December 2014			
Index Classification	No. of Companies	Portfolio Valuation £'000	Weight %	NSCI (XIC) Weight %	**No. of Companies**	**Portfolio Valuation £'000**	**Weight %**	**NSCI (XIC)[2] Weight %**
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	34	589,922	51	70	**32**	**567,989**	**50**	**67**
FTSE SmallCap	40	461,666	40	24	**41**	**471,401**	**41**	**27**
FTSE Fledgling	9	63,758	5	2	**7**	**36,147**	**3**	**1**
Other	9	52,284	4	4	**10**	**63,256**	**6**	**5**
	92	1,167,630	100	100	**90**	**1,138,793**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2015.

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 29 January 2015 and signed on its behalf by:

Paul Trickett,
Chairman

Governance Report

Board of Directors

Paul Trickett, Chairman

Appointed: 30 January 2013 Remuneration: £ 34,500 p.a.
Shareholding in the Company: 3,950 Ordinary Shares

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, Zurich UK pension scheme, Railpen Investments and is on the board of Insight Investment and Thomas Miller 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.

Julia Le Blan

Appointed: 29 January 2014 and is a member of the Audit Committee Remuneration: £ 24,500 p.a.
Shareholding in the Company: 1,500 Ordinary Shares

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.

Paula Hay-Plumb

Appointed: 29 January 2014 Remuneration: £ 23,000 p.a.
Shareholding in the Company: 800 Ordinary Shares

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 and the National Audit Office. Paula is currently a non-executive board member of Hyde Housing Association and of The Crown Estate and Finance Director of Rosling King LLP.

David Jeffcoat

Appointed: 22 July 2009 and is Chairman of the Audit Committee Remuneration: £ 28,000 p.a.
Shareholding in the Company: 7,361 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.

Richard Rae

Appointed: 26 January 2012 and is a member of the Audit Committee Remuneration: £ 24,500 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.

Directors' Report

The Directors submit their Report and Accounts for the year ended 31 December 2014.

Directors

The Directors of the Company during the financial year are listed on page 30. Further information surrounding the Board can be found in the Corporate Governance Report, which forms part of this Directors' Report.

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 neither executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company.

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 2014 amounted to a loss of £7,587,000 (2013: gain of £394,311,000). The net asset value per Ordinary Share at 31 December 2014 was 1,161.14p (2013: 1,193.22p).

Your Board is pleased to declare a final dividend of 17.00p (total of £16,209,000), which produces total dividends for the year of 24.75p (total of £23,600,000), an increase of 5.3% over the previous year. The final dividend, subject to Shareholder approval, will be paid on 5 March 2015 to Shareholders on the register at the close of business on 12 February 2015.

Company Status

The Company is closed-ended investment trust listed on the London Stock Exchange and an Alternative Investment Fund under the Alternative Investment Fund Managers (AIFM) Directive. 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. Furthermore, the Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006.

Investment Managers

Aberforth Partners LLP (the "firm", "Managers" or "Aberforth") act as Alternative Investment Fund Manager 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 £2.1 billion (as at 31 December 2014). The firm is wholly owned by six partners – five investment managers, and Alan Waite, who is responsible for the firm's administration. Six investment managers work as a team managing the Company's portfolio on a collegiate basis: Andrew Bamford, Euan Macdonald, Keith Muir, Richard Newbery, Alistair Whyte and Mark Williamson.

These services can be terminated by either party at any time by giving six months' notice of termination. Compensation would be payable in respect of this six month period only if termination were to occur sooner. Aberforth 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 management fee amounted to £8,639,000 in the year ended 31 December 2014 (2013: £6,971,000).

The secretarial fee, payable quarterly in advance, amounted to £77,569 (excluding VAT) during 2014. It 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 Managers and the Company's Shareholders;
- the administrative services provided by the Secretaries; and
- the level of satisfaction of major Shareholders with the Managers.

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

Depositary

National Westminster Bank plc was appointed with effect from 1 July 2014 to carry out the duties of Depositary as specified in the Alternative Investment Fund Managers (AIFM) Directive in relation to the Company, including

- holding or controlling all assets of the Company which are entrusted to it for safekeeping;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Managers.

In carrying out such duties, the Depositary acts in the best interests of the Shareholders of the Company. The Depositary is contractually liable to the Company for the loss of any assets entrusted to it. The Depositary is also liable to the Company for all other losses suffered as a result of the Depositary's fraud, negligence and/or failure to fulfil its duties properly.

National Westminster Bank plc receives an annual fee, payable quarterly in arrears, of 0.0125% of the net assets of the Company and their appointment may be terminated at any time by giving at least six months notice. A Depositary may only be removed from office when a new Depositary is appointed by the Company.

Capital Structure and Share Buy-Backs

At 31 December 2014, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 95,344,792 were issued and fully paid. During the year, 38,000 shares (0.04% of the Companies issued share capital with a nominal value of £380) were bought back and cancelled at a total cost of £403,000. No shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares are made only at a level that enhances the net asset value (NAV), the principal objective of any such purchase is 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.

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 in 2017.

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 liability to capital gains tax on their investment at that time. If such 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.

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 its 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. 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.

Directors' Report

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 Board is pleased to offer electronic proxy voting, including CREST voting capabilities. 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 2014 and 29 January 2015. The total number of votes amounted to 95,344,792 at each of these dates.

Interested person	Percentage of Voting Rights Held
Brewin Dolphin Limited	8.2
Investec Wealth & Investment Limited	8.0
Rathbone Brothers plc	5.5

Annual General Meeting

The AGM will be held on Thursday, 27 February 2015 at 9.00 a.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 11, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2016. 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.

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.

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 20 and 21.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on pages 5 and 24.
- 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.

Directors' 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.

Bribery Act 2010

The Company has zero tolerance of bribery and is committed to carrying out business fairly, honestly and openly.

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.

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 themselves 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 businesses 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
Paul Trickett
Chairman
29 January 2015

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 (the AIC Code) as set out in the AIC Guide. The AIC Code 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 investment trusts. The Board considers that reporting in accordance with the principles and recommendations of the AIC Code provides more reliable and comprehensive information to shareholders. Both the AIC Code and the AIC Guide are available on the AIC website at www.theaic.co.uk.

Compliance

Throughout the year ended 31 December 2014 the Company complied with the recommendations of the AIC Code except, as explained below, where the Company does not believe it appropriate to comply.

The Board, being small in size and composed entirely of independent non-executive Directors, has not appointed a Remuneration or a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole. The Board has also decided not to nominate a Deputy Chairman or a Senior Independent Director, although David Jeffcoat, as Chairman of the Audit Committee, fulfils this role when necessary, for example in taking the lead in the annual evaluation of the Chairman.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive Directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the company as it 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 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 considered at its meetings. The Board comprises of five non-executive Directors, of whom Mr Trickett is Chairman. A formal schedule of matters reserved for decision by the Board has been adopted. The Board has engaged external firms to provide investment management, secretarial, depositary and custodial services. Contractual arrangements are in place between the Company and these firms.

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 presently considered to be independent. All Directors retire at the AGM each year and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of their engagement as a non-executive Director, copies of which will be available on request and at the AGM.

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 stockmarket environment;
- the Company's investment activity over the quarter relative to its investment policy;
- performance in relation to comparable investment and unit trusts
- the revenue, balance sheet and gearing position;
- share price discount (both absolute levels and volatility);
- shareholder register (including significant changes);
- regulatory matters; and
- relevant industry issues.

The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment strategy.

Corporate Governance Report

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

January		April	July		October	
Consider Final Dividend	Approval of the Annual Report	Shareholder Communication	Consider 1st Interim Dividend	Approval of Half Yearly Report	Internal Control Review	Corporate Governance Review
Review of Investment Trust Peer Group	Review of Management Fee allocation	Review of Gearing	Retail Distribution Review	Annual Strategy Review	Review Managers' continued appointment	Board & Committee Evaluation

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 February 2014.

Director	The Board Eligible to attend	The Board Attended	Audit Committee Eligible to attend	Audit Committee Attended
S P Trickett, Chairman	4	4	3[1]	3[1]
P M Hay-Plumb (appointed on 29 January 2014)	3	3	–	–
D J Jeffcoat	4	4	4	4
J Le Blan (appointed on 29 January 2014)	3	3	2	2
Prof P R Marsh (retired on 17 October 2014)	4	4	–	–
Prof W S Nimmo (retired on 27 February 2014)	1	1	–	–
R A Rae	4	4	4	4

[1] prior to being appointed as Chairman of the Company on 17 October 2014.

Appointments to the Board

No further directors have been appointed since the appointment of Mrs Le Blan and Mrs Hay-Plumb on 29 January 2014.

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 conduct this review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which are summarised and discussed. 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 as facilitators 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, all Directors being eligible, offer themselves for re-election at the forthcoming AGM. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends their re-election 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.

Corporate Governance Report

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 actual or potential conflicts of interest. No conflicts of interest arose during the year under review.

Risk Management and Internal Control

The Board has overall responsibility for the Company's risk management and system of internal control and for reviewing their effectiveness. The Company applies the revised guidance published by the Financial Reporting Council: *"Internal Control : Revised Guidance for Directors on the Combined Code"*. 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 on the Company is reliable. The Directors have an on-going process for identifying, evaluating and managing the significant risks faced by the Company which are recorded in a risk matrix. This was in operation during the year and continues in place up to the date of this report. This process principally comprises the Audit Committee receiving and examining regular reports from key service providers. 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.

Communications with Shareholders

The Board places great importance on communication with shareholders. The Managers meet the larger shareholders twice a year and provide them with a detailed report on the progress of the Company. In addition, Paul Trickett, Chairman, attended five of these meetings in November 2014. The Board receives reports from the Managers of these shareholder meetings. Directors of the Company are always available to meet with any shareholder on request. Furthermore, following publication of the Annual Report, the Chairman emails the largest shareholders inviting questions on all aspects concerning the Company. The Directors may be contacted through the Secretaries whose details are shown on the inside back cover or through the Chairman's email address, paul.trickett@aberforth.co.uk. In addition to the annual and half yearly reports, the Company's performance, daily Net Asset Values, monthly factsheets and other relevant information is published 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.

Social, Environmental and Ethical Issues

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' Stewardship Policy 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 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.

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 its Managers to exercise the 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 quarterly reports from the Managers on governance issues (including voting) pertaining to investee companies. The Board also reviews and endorses, from time to time, the Managers' voting guidelines and its stance towards SRI and SEE matters.

By Order of the Board
Paul Trickett
Chairman
29 January 2015

Audit Committee Report

The Committee members are all independent non-executive directors who have been selected by the Board to fulfil the Committee's duties based upon their range of financial and commercial expertise. They are David Jeffcoat (Chairman), Richard Rae and Julia Le Blan, who joined the Committee in July 2014. In addition Paul Trickett was a member until 17 October 2014 when he was appointed Chairman of the Company. The members' biographies can be found on page 18.

Key Objective:

The objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so the Committee operates within terms of reference that have been agreed by the Board. These terms of reference are reviewed annually and are available upon request. They will also be available for inspection at the AGM.

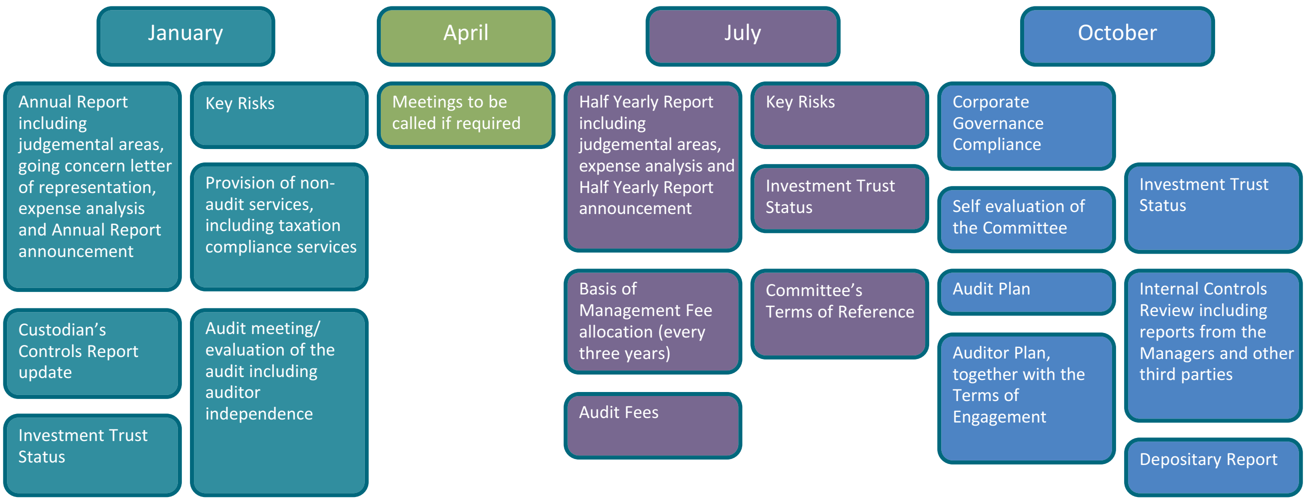
Principal Responsibilities:

Under its terms of reference the Committee has been given the following key responsibilities:

- ensuring that all of the Company's key risks are identified and monitoring the mitigating controls that have been established by its main third party service providers;
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust;
- reviewing the Company's financial statements, the accounting policies adopted and the key judgemental areas;
- ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable;
- agreeing the external Auditor's terms of appointment, determining the independence and objectivity of the Auditor and assessing the effectiveness of the audit ; and
- considering whether it is appropriate for certain 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. To assist with the various duties of the Committee, the following Annual Plan has been approved:

Audit Committee Annual Plan



Meetings

Three meetings are typically held each year and this was the case in 2014. Additional meetings take place if necessary. Representatives of Aberforth Partners LLP, who provide the Company with Secretarial services, attended all of the meetings. Deloitte LLP ("Deloitte"), the external auditor, attended the meetings in January and October.

Audit Committee Report

During the year the Committee focused on the areas described below.

Financial Reporting

In January 2015 the Committee received a report and supporting presentation from the external Auditor on its audit of the financial statements for the year to 31 December 2014. In addition, the Secretaries reported on the preparation of the financial results and other relevant matters. The Committee considered these reports in detail and took further comfort from the internal control review discussed below. Consequently, the Committee concluded that it was satisfied as to:

- the ownership and valuation of the investment portfolio as at 31 December 2014;
- the basis on which the management fee and interest costs had been allocated between the capital and income elements of the income statement;
- revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period.

The Committee read and discussed the Annual Report and concluded that it is fair, balanced and understandable.

As a result the Committee agreed that it could recommend to the Board that the financial statements be approved for publication.

The interim financial results, published on 25 July 2014, were not audited. Therefore the Committee's business in July was focussed on a discussion, with supporting documentation from the Secretaries, on the preparation and content of the Interim Report, together with other aspects such as going concern.

Going Concern

The Committee received reports on going concern from the Secretaries in January and July, reflecting the guidance published by the FRC. The content of the investment portfolio, trading activity, portfolio diversification and the existing debt facility were also discussed. After due consideration, the Committee concluded it was appropriate to prepare the Company's accounts on a going concern basis and made this recommendation to the Board. The relatively high level of liquidity of the portfolio was a key factor that led to this conclusion.

Internal Control and Risks

The Committee carefully considered a Summary Matrix of the Company's principal risks and the mitigating controls at each meeting. In October the risks and controls were addressed in more detail. The Committee enhanced the design and content of the Matrix during the year and believes that it continues to reflect accurately the Company's key risks as seen by the Board. The principal risks, which are detailed on page 5 of this Report, have not changed during the year.

Also in October the Committee received the Managers' report on internal controls, including the assurance report issued by PricewaterhouseCoopers LLP on the nature and effectiveness of the control framework that has been established by the Managers. In addition, the Committee received internal control reports from the key service providers. The Committee reviewed these reports and concluded that there were no significant control weaknesses or other issues that needed to be brought to the Board's attention.

The Committee also discussed whether there was a need for a dedicated internal audit function. The Committee concluded that, as the Company has no employees and sub-contracts all of its operations to key third party suppliers, an internal audit function is not necessary.

Investment Trust Status

It is essential for the Company's continuing existence that it maintains its investment trust status. The Committee confirms this point at each meeting with reference to a checklist prepared by the Secretaries.

Appointment of the External Auditor

Deloitte was appointed as the Company's auditor in April 2013 following a formal tender process. This was a new appointment. Based upon existing legislation and that which is currently anticipated, another tender process would not be required until 2023.

Audit Planning and Audit Fees

The external audit partner from Deloitte presented the detailed audit plan to the Committee in October in advance of the 2014 audit. The plan set out the scope of the audit, the principal risks (as detailed in the Independent Auditor's Report), Deloitte's position on audit independence, the proposed timetable and fees. These amounted to £18,750, excluding VAT, for the year (2013: £18,250). There were no non-audit activities carried out by Deloitte.

Audit Committee Report

Evaluation of the Auditor

Following the completion of the audit, the Committee reviewed the Auditor's effectiveness by:

- discussing the audit and the process with the audit partner and senior manager;
- considering the experience and continuity of the audit team, including the audit partner;
- considering feedback on the audit provided by the Secretaries.

The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience and that the audit partner, who had significant prior experience of the investment trust sector, had served for two years. The Committee noted positive feedback from the Secretaries on Deloitte's performance on the audit. Additionally Deloitte had provided confirmation that it had complied with the relevant UK professional and regulatory requirements on independence.

Taking these factors into account, the Committee is satisfied that the external audit was carried out effectively. It has therefore recommended to the Board the re-appointment of Deloitte as the Company's auditor for the 2015 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

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
29 January 2015

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 Board has prepared this report in accordance with the requirements of the Companies Act 2006.

This policy was previously approved by Shareholders at the Annual General Meeting held in 2014 and the policy provisions continue to apply until they are next put to Shareholders for approval, which must be at intervals not exceeding three years. This policy, together with the Directors' letters of appointment may be inspected at the Company's registered office.

The Board considers and determines 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. 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 years ending 31 December 2014 and 31 December 2015:

	Annual Fees 2015 £	Annual Fees 2014 £
Chairman of the Company	**34,500**	33,750
Director and Chairman of the Audit Committee	**28,000**	27,500
Director and Member of the Audit Committee	**24,500**	23,500
Director	**23,000**	22,500

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 33.

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
S P Trickett, *Chairman*	29 January 2013	—	AGM 2015
Prof P R Marsh	16 July 2004	17 October 2014	—
P M Hay-Plumb	29 January 2014	—	AGM 2015
D J Jeffcoat	22 July 2009	—	AGM 2015
J Le Blan	29 January 2014	—	AGM 2015
Prof W S Nimmo	16 July 2004	27 February 2014	—
R A Rae	26 January 2012	—	AGM 2015

Each Director's unexpired term is subject to their re-election at the Annual General Meeting in February 2015.

Directors' Fees (Audited)

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

	Fees (Total Emoluments) 2014 £	Fees (Total Emoluments) 2013 £
S P Trickett, Chairman	**25,654**	20,867
D J Jeffcoat, Chairman of the Audit Committee	**27,500**	27,000
J Le Blan	**21,188**	–
P M Hay-Plumb	**20,750**	–
R A Rae	**23,500**	23,000
Prof P R Marsh, retired 17 October 2014	**26,884**	33,000
Prof W S Nimmo, retired 27 February 2014	**3,625**	22,000
H N Buchan, retired 5 March 2013	**–**	4,033
	149,101	129,900

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:

	2014 £'000	2013 £'000	Absolute change £'000
Total Directors' remuneration	**149**	130	+19
Total dividends in respect of that year	**23,600**	22,427	+1,173
Total share buyback consideration	**403**	2,758	-2,355

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests

The Directors who held office at any time during the year ended 31 December 2014 and their interests in the Shares of the Company as at that date and 1 January 2014 were as follows:

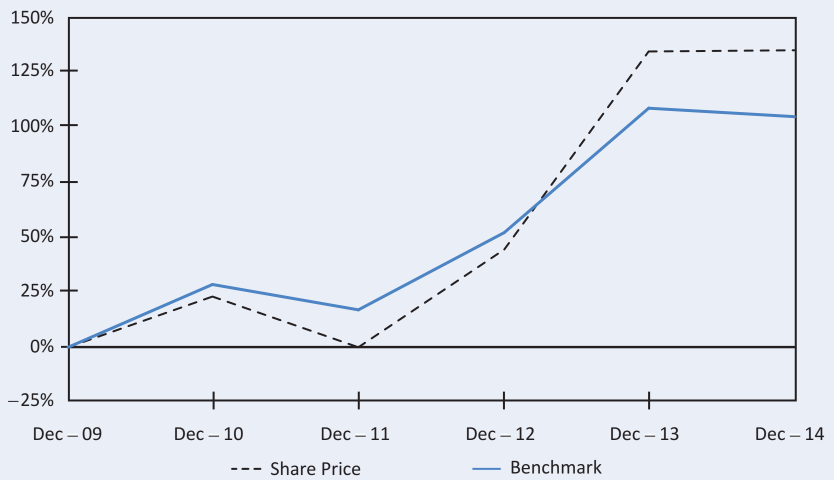
		Ordinary Shares	
Directors	Nature of Interest	**31 December 2014**	1 January 2014
S P Trickett, Chairman	Beneficial	3,950	2,500
J Le Blan, appointed 29 January 2014	Beneficial	1,500	n/a
D J Jeffcoat	Beneficial	7,361	5,029
P M Hay-Plumb, appointed 29 January 2014	Beneficial	800	n/a
R A Rae	Beneficial	4,000	4,000
Prof P R Marsh, retired 17 October 2014	Beneficial	n/a	33,000
Prof W S Nimmo, retired 27 February 2014	Beneficial	n/a	29,157

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2014 and 29 January 2015. The Company has no share options or 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 27 February 2014, Shareholders, on a show of hands, passed the resolutions to approve the Directors' Remuneration Report and the Directors' Remuneration Policy (of the 47.6m proxy votes, 83.35% were cast in favour, 0.04% were cast against and 16.61% votes were withheld in respect of each resolution).

Share Price Performance



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

This graph compares the performance of the Company's share price with 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.

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 2014:

(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 were taken.

On behalf of the Board

Paul Trickett
Chairman

29 January 2015

Directors' Responsibility Statement

The Directors are required by law to prepare financial statements for each financial year in accordance with applicable law and regulations. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

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 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. 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 confirms 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.

(c) the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board
Paul Trickett
Chairman

29 January 2015

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 2014 and of the Company's return 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.

The financial statements comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 20 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 any 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 listed investments of the Company (£1,139m) make up 103% of total net assets (£1,107m). Please see notes 9 and 18. Investments listed on recognised exchanges are valued at the closing bid price at the year end. There is a risk that investments may not be valued correctly or may not represent the property of the Company.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source; • agreed 100% of the Company's investment portfolio at the year end to confirmation received directly from the custodian and depositary; and • reviewed the internal controls report over Northern Trust to assess the adequacy of the design and implementation of controls at the custodian.
Revenue recognition, completeness and allocation between revenue and capital Dividends from equity shares are accounted for on an ex-dividend date as revenue, except where; in the opinion of management and the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Please see note 2. There is a risk that revenue is incomplete or incorrectly allocated between revenue and capital accounts. We have included this risk in our audit opinion for 31 December 2014 as this balance is now significant.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over revenue recognition, completeness and allocation; • for a sample of corporate actions and all special dividends we challenged management's rationale for the allocation between revenue and capital against the requirements of the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") and agreed details of the dividend to a third party source to evidence the nature of the dividend and completeness of the listing; • evaluated the accounting policies for revenue recognition against the requirements of UK Generally Accepted Accounting Practice and the SORP; and • for a sample of investments, agreed the ex-dividend dates and rates for dividends declared, obtained from an independent pricing source to the Company's dividend listing and bank statements to determine that the dividends have been correctly recognised and to determine completeness of the population.

Independent Auditor's Report

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 27.

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.

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 £11.1m (2013: £34.1m), which is 1% (2013: 3%) of Total Net Assets.

We have changed the percentage applied to align more closely with other comparable companies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £221,000 (2013: £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 Company 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.

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 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 ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Independent Auditor's Report

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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 (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Edinburgh, United Kingdom

29 January 2015

(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 2014

		2014			2013		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	**–**	**(24,628)**	**(24,628)**	–	377,222	377,222
Investment income	2	**30,166**	**291**	**30,457**	29,741	–	29,741
Other income	2	**1**	**–**	**1**	–	–	–
Investment management fee	3	**(3,240)**	**(5,399)**	**(8,639)**	(2,614)	(4,357)	(6,971)
Other expenses	4	**(661)**	**(3,346)**	**(4,007)**	(496)	(3,892)	(4,388)
Net return before finance costs and tax		**26,266**	**(33,082)**	**(6,816)**	26,631	368,973	395,604
Finance costs	5	**(289)**	**(482)**	**(771)**	(485)	(808)	(1,293)
Return on ordinary activities before tax		**25,977**	**(33,564)**	**(7,587)**	26,146	368,165	394,311
Tax on ordinary activities	6	**–**	**–**	**–**	–	–	–
Return attributable to equity shareholders		**25,977**	**(33,564)**	**(7,587)**	26,146	368,165	394,311
Returns per Ordinary Share	8	**27.24p**	**(35.19)p**	**(7.95)p**	27.37p	385.35p	412.72p

The Board declared on 29 January 2015 a final dividend of 17.00p per Ordinary Share (2013 — 16.15p). The Board also declared on 25 July 2014 an interim dividend of 7.75p per Ordinary Share (2013 — 7.35p).

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 2014

	Share capital £'000	**Capital redemption reserve £'000**	**Special reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
Balance as at 31 December 2013	954	34	176,703	910,616	49,818	1,138,125
Return on ordinary activities after taxation	–	–	–	(33,564)	25,977	(7,587)
Equity dividends paid	–	–	–	–	(22,795)	(22,795)
Purchase of Ordinary Shares	(1)	1	(403)	–	–	(403)
Balance as at 31 December 2014	**953**	**35**	**176,300**	**877,052**	**53,000**	**1,107,340**

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

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**1,138,793**	1,167,630
Current assets			
Debtors	10	**2,670**	2,120
Cash at bank		**238**	536
		2,908	2,656
Creditors (amounts falling due within one year)	11	**(209)**	(32,161)
Net current assets/(liabilities)		**2,699**	(29,505)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,141,492**	1,138,125
Creditors (amounts falling due after more than one year)	12	**(34,152)**	–
TOTAL NET ASSETS		**1,107,340**	1,138,125
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	13	**953**	954
Capital redemption reserve	14	**35**	34
Special reserve	14	**176,300**	176,703
Capital reserve	14	**877,052**	910,616
Revenue reserve	14	**53,000**	49,818
TOTAL SHAREHOLDERS' FUNDS		**1,107,340**	1,138,125
NET ASSET VALUE PER SHARE	15	**1,161.41p**	1,193.22p

Approved and authorised for issue by the Board of Directors on 29 January 2015 and signed on its behalf by:

Paul Trickett,
Chairman

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Net return before finance costs and taxation		**(6,816)**	395,604
Losses/(gains) on investments		**24,628**	(377,222)
Scrip dividends received		**–**	(223)
Expenses incurred in acquiring or disposing of investments		**3,346**	3,892
Increase in debtors		**(129)**	(248)
Increase in other creditors		**36**	24
Net cash inflow from operating activities		**21,065**	21,827

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities		**21,065**	21,827
Servicing of finance	16	**(863)**	(1,225)
Taxation		**15**	(15)
Financial investment	16	**433**	18,805
		20,650	39,392
Equity dividends paid	7	**(22,795)**	(21,607)
		(2,145)	17,785
Financing			
Purchase of Ordinary Shares		**(403)**	(2,758)
Net drawdown/(repayment) of bank debt facilities (before costs)	17	**2,250**	(14,750)
(Decrease)/increase in cash	17	**(298)**	277

	Note	2014 £'000	2013 £'000
Reconciliation of net cash flow to movement in net debt	17		
(Decrease)/increase in cash in the year		**(298)**	277
Net (drawdown)/repayment of bank debt facilities		**(2,250)**	14,750
Increase/(decrease) in amortised costs in respect of the bank debt facility		**85**	(51)
Change in net debt		**(2,463)**	14,976
Opening net debt		**(31,451)**	(46,427)
Closing net debt		**(33,914)**	(31,451)

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Significant 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" ("SORP") 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 forgone 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 that 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 £125 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.

(h) Revenue reserve

This reserve represents the only reserve from which dividends can be funded.

Notes to the Financial Statements

2 Income

	2014 £'000	2013 £'000
Income from investments		
UK dividend income	**28,765**	27,542
Convertible Bond income	**29**	26
Overseas dividends	**1,036**	1,610
Property income distributions	**336**	340
Scrip dividends	**–**	223
	30,166	29,741
Other income		
Deposit interest	**1**	–
Total income	**30,167**	29,741
Total income comprises:		
Dividends	**30,137**	29,715
Convertible Bond income	**29**	26
Deposit interest	**1**	–
	30,167	29,741

During the year the Company received one special dividend amounting to £291,000 (2013 – nil) that was considered as a return of capital by the investee company.

3 Investment Management Fee

	2014			2013		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**3,240**	**5,399**	**8,639**	2,614	4,357	6,971

Details of the investment management contract can be found on page 19.

4 Other Expenses

	2014 £'000	2013 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**149**	130
Secretarial services	**93**	91
Depositary fee	**84**	–
Registrar fee	**69**	61
Custody and other bank charges	**57**	48
UKLA and LSE listing fees	**48**	33
Legal fees	**28**	12
AIC fees	**23**	25
Auditor's fee – for audit services: recurring (£18,750 + VAT)	**23**	22
– for non-audit services	**–**	–
Directors' and Officers' liability insurance	**11**	9
Other expenses	**76**	65
	661	496

Notes to the Financial Statements

4 Other Expenses *(continued)*

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

	2014 £'000	2013 £'000
Analysis of total purchases		
Purchase consideration before expenses	**417,475**	395,428
Commissions	**763**	1,013
Taxes	**1,647**	1,752
Total purchase expenses	**2,410**	2,765
Total purchase consideration	**419,885**	398,193
Analysis of total sales		
Sales consideration before expenses	**421,684**	418,346
Commissions	**(936)**	(1,127)
Total sale proceeds net of expenses	**420,748**	417,219
Total expenses incurred in acquiring or disposing of investments	**3,346**	3,892

5 Finance Costs

	2014 Revenue £'000	**2014 Capital £'000**	**2014 Total £'000**	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Interest/non-utilisation costs on bank debt facility	**274**	**457**	**731**	466	776	1,242
Amortisation of bank debt facility costs	**15**	**25**	**40**	19	32	51
	289	**482**	**771**	485	808	1,293

6 Taxation

Analysis of tax charged on return on ordinary activities	**2014 £'000**	2013 £'000
UK corporation tax charge for the year (see below)	**–**	–

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:

	2014 £'000	2013 £'000
Total returns on ordinary activities before tax	**(7,587)**	394,311
Notional corporation tax at 21.5% (2013 – 23.25%)	**(1,631)**	91,677
Non-taxable UK dividends	**(6,184)**	(6,379)
Non-taxable overseas dividend income	**(223)**	(374)
Expenses not deductible for tax purposes	**719**	905
Expenses for which no relief has been taken	**2,024**	1,875
Non-taxable capital losses/(gains)	**5,295**	(87,704)
UK corporation tax charge for the year	**–**	–
Irrecoverable overseas taxation suffered	**–**	–
Total tax charge for the year	**–**	–

The Company has not recognised a potential asset for deferred tax of £18,426,000 (2013: £17,958,000) 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

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2013 of 16.15p (2012: 15.25p) paid on 6 March 2014	**15,404**	14,584
Interim dividend for the year ended 31 December 2014 of 7.75p (2013: 7.35p) paid on 28 August 2014	**7,391**	7,023
	22,795	21,607
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2014 of 17.00p (2013: final dividend of 16.15p) payable on 5 March 2015	**16,209**	15,404

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

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

	2014	2013
Returns attributable to Ordinary Shareholders	**£(7,587,000)**	£394,311,000
Weighted average number of shares in issue during the year	**95,367,970**	95,541,545
Return per Ordinary Share	**(7.95)p**	412.72p

9 Investments

	2014 £'000	2013 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,167,630**	813,326
Opening fair value gains on investments	**(269,440)**	(46,657)
Opening book cost	**898,190**	766,669
Purchases at cost	**417,475**	395,428
Sale proceeds	**(421,684)**	(418,346)
Realised gains on sales	**150,295**	154,439
Closing book cost	**1,044,276**	898,190
Closing fair value gains on investments	**94,517**	269,440
Closing fair value	**1,138,793**	1,167,630

All investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated on pages 14 to 16.

	2014 £'000	2013 £'000
(Losses)/gains on investments:		
Realised gains on sales	**150,295**	154,439
(Decrease)/increase in fair value gains on investments	**(174,923)**	222,783
Net (losses)/gains on investments	**(24,628)**	377,222

9 Investments *(continued)*

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**	**2014 Total** **£'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2013 Total £'000
Investments	**1,138,793**	**–**	**–**	**1,138,793**	1,167,486	–	144	1,167,630

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.

£'000	Value at 1 January 2014	Purchases	Sales proceeds	Gains on sales	Movement in fair value	**Value at 31 December 2014**
Unlisted investments	144	–	–	–	(144)	**–**

10 Debtors

	2014 **£'000**	2013 £'000
Investment income receivable	**2,197**	2,067
Amounts due from brokers	**436**	–
Taxation recoverable	**–**	15
Other debtors	**37**	38
	2,670	2,120

11 Creditors: Amounts falling due within one year

	2014 **£'000**	2013 £'000
Bank debt facility (see note 12)	**–**	32,000
less unamortised costs	**–**	(13)
	–	31,987
Amounts due to brokers	**6**	–
Other creditors	**203**	174
	209	32,161

12 Creditors: Amounts falling due after more than one year

	2014 **£'000**	2013 £'000
Bank debt facility	**34,250**	–
Less: Unamortised costs	**(98)**	–
	34,152	–

Borrowing facilities

On 1 May 2014, the Company entered into a three year unsecured £125 million Facility Agreement with The Royal Bank of Scotland plc. A 0.10% 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 0.80% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate of 0.25% per annum.

The main covenant under the facility requires that, every month, total borrowings shall not exceed 25% of the Company's total adjusted gross assets. There were no breaches of the covenants during the year. As at 31 December 2014, total borrowings represented 3.0% of total adjusted gross assets (as defined by Facility Agreement). The current facility is due to expire on 15 June 2017.

Notes to the Financial Statements

13 Share Capital

	2014 No. of Shares	2014 £'000	2013 No. of Shares	2013 £'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	**95,344,792**	**953**	95,382,792	954

During the year, the Company bought in and cancelled 38,000 shares (2013: 310,000) at a total cost of £403,000 (2013: £2,758,000). No shares have been bought back for cancellation between 31 December 2014 and 29 January 2015.

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 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
Net gains on sale of investments	–	–	–	150,295	–	150,295
Movement in fair value adjustment	–	–	–	(174,923)	–	(174,923)
Cost of investment transactions	–	–	–	(3,346)	–	(3,346)
Management fees charged to capital	–	–	–	(5,399)	–	(5,399)
Finance costs charged to capital	–	–	–	(482)	–	(482)
Special dividend taken to capital	–	–	–	291	–	291
Revenue return attributable to equity shareholders	–	–	–	–	25,977	25,977
Equity dividends paid	–	–	–	–	(22,795)	(22,795)
Purchase of Ordinary Shares	(1)	1	(403)	–	–	(403)
At 31 December 2014	**953**	**35**	**176,300**	**877,052**	**53,000**	**1,107,340**

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:

	2014	2013
Net assets attributable	**£1,107,340,000**	£1,138,125,000
Ordinary Shares in issue at the end of year	**95,344,792**	95,382,792
Net asset value per ordinary Share	**1,161.41p**	1,193.22p

Notes to the Financial Statements

16 Gross cash flows

	2014 £'000	2013 £'000
Servicing of finance		
Interest/non-utilisation costs on bank debt facility	**(738)**	(1,225)
Arrangement fee paid in connection with the renewal of the bank facility	**(125)**	–
	(863)	(1,225)
Financial investment		
Payments to acquire investments	**(419,879)**	(398,414)
Receipts from sales of investments	**420,312**	417,219
	433	18,805

17 Analysis of changes in net debt

	Net debt at 1 January 2014 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2014 £'000
Cash at bank	**536**	**(298)**	**–**	**238**
Bank debt facility	**(32,000)**	**(2,250)**	**–**	**(34,250)**
Bank debt facility fee (see note 11)	**13**	**125**	**(40)**	**98**
	(31,451)	**(2,423)**	**(40)**	**(33,914)**

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 14 to 16), 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 gear the portfolio. Note 1 sets out the significant 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.

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding 0.1% as at 31 December 2014 (2013: 0.4%). 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 £125,000,000 of which £34,250,000 was drawn down as at 31 December 2014 (2013: debt facility of £100,000,000, of which £32,000,000 was drawn down). Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had increased by 1% point, the impact on the profit or loss and therefore Shareholders' funds would have been negative £342,000 (2013: negative £320,000). If LIBOR and the bank base rate had decreased by 0.5% point, the impact on the profit

18 Financial instruments *(continued)*

(i) Interest rate risk *(continued)*

or loss and therefore Shareholders' funds would have been a positive £171,000 (2013: positive £160,000). 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. Short term funding flexibility can 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.

(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.

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 and their internal control report. Cash at bank is held with reputable banks with acceptable external credit ratings. Furthermore the Company's Depositary is contractually liable to the Company for the loss of any assets entrusted to it.

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

	2014 £'000	2013 £'000
Investment income receivable	**2,197**	2,067
Amounts due from brokers	**436**	–
Cash at bank	**238**	536
	2,871	2,603

(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 8 to 12. 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 2014, the impact on the profit or loss and therefore Shareholders' funds would have been negative £227.8m (2013: negative £233.5m). If the investment portfolio valuation rose by 20% at 31 December 2014, the impact on the profit or loss and therefore Shareholders' funds would have been positive £227.8m (2013: £233.5m). 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.

As at 31 December 2014, 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

(All in £'000)	Due or due no 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
As at 31 December 2014						
Liabilities:						
Bank debt facility	**73**	**–**	**–**	**34,250**	**–**	**34,323**
Unamortised costs	**–**	**–**	**–**	**(98)**	**–**	**(98)**
Amounts due to brokers	**6**	**–**	**–**	**–**	**–**	**6**
Other creditors	**38**	**92**	**–**	**–**	**–**	**130**
Total liabilities	**117**	**92**	**–**	**34,152**	**–**	**34,361**

Notes to the Financial Statements

18 Financial instruments *(continued)*

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
Liabilities:						
Bank debt facility	15	65	32,000	–	–	32,080
Unamortised costs	–	–	(13)	–	–	(13)
Amounts due to brokers	–	–	–	–	–	–
Other creditors	58	36	–	–	–	94
Total liabilities	73	101	31,987	–	–	32,161

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2014

(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	**–**	**239**	**506**	**35,230**	**–**	**35,975**
Amounts due to brokers	**–**	**6**	**–**	**–**	**–**	**6**
Other creditors	**–**	**130**	**–**	**–**	**–**	**130**
	–	**375**	**506**	**35,230**	**–**	**36,111**

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	–	313	32,080	–	–	32,393
Amounts due to brokers	–	–	–	–	–	–
Other creditors	–	94	–	–	–	94
	–	407	32,080	–	–	32,487

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 2014 (2013: 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.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-fourth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 27 February 2015 at 9.00 a.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 2014 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2014 be approved.
3. To declare a final dividend of 17.0p per share.
4. That Mr S P Trickett be re-elected as a Director.
5. That Mr D J Jeffcoat be re-elected as a Director.
6. That Mr R A Rae be re-elected as a Director.
7. That Mrs J Le Blan be re-elected as a Director.
8. That Mrs P M Hay-Plumb be re-elected as a Director.
9. That Deloitte LLP be re-appointed as Auditor.
10. That the Directors be authorised to fix the remuneration of the Auditor for the year to 31 December 2015.

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

11. 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 14,292,184 (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 2016 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2016, 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*

29 January 2015

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 their behalf. Such a proxy need not also be a member of the Company.

   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 9.00 a.m. on 25 February 2015 (or, if the Annual General Meeting is adjourned, at 9.00 a.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.

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 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 Registrar 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.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 27 February 2015 and any adjournment(s) thereof by using the procedures described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: **RA10**), no later than 48 hours before the time appointed for the meeting.

3. **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.

4. **Total Voting Rights**

   As at 29 January 2015, the latest practicable date prior to publication of this document, the Company had 95,344,792 Ordinary Shares in issue with a total of 95,344,792 voting rights.

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

   In accordance with section 311A of the Companies Act 2006, 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

6. **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.

7. **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 the member's full name and address and be sent to the registered address of the Company.

8. **Information on the Website**

   Information required to be published under section 311A of the Companies Act 2006 will be made available on the Managers' website www.aberforth.co.uk

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 2014, 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 Registrar:

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 Registrar, 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 Registrar 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. Company performance and other relevant information are available on the Managers' website at www.aberforth.co.uk and are updated monthly. 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.

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	GIIN
Ordinary Shares of 1p	0006655	ASL LN	ASL.L	U6SSZS.99999.SL.826

Continuation Vote

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2017 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.

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.

Shareholder Information

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage is required to be made available to Shareholders. The Company's maximum and actual leverage levels as at 31 December 2014 are shown below.

Leverage Exposure (refer to the Glossary)	Commitment Method	Gross Method
Maximum limit	2.00:1	2.00:1
Actual	1.03:1	1.03:1

Furthermore, in accordance with the Directive, the AIFM's remuneration policy is available on request from Aberforth Partners LLP and numerical disclosures in respect of the AIFM's first relevant reporting period (year ended 30 April 2016) will be made available in due course.

Glossary

Active share ratio is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the stocks in that index. The total is then divided by two to give a ratio between 0% and 100%. Active Share is addressed by Antti Petajisto and Martijn Cremers in 2009 publication from the Yale School of Management: *How Active Is Your Fund Manager? A New Measure That Predicts Performance.*

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.

Gearing represents borrowings by an investment trust to buy investments if the Managers expect stockmarkets to 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.

Leverage for the purposes of the AIFM Directive, is any method which increases the Company's exposure to stock markets whether through borrowings, derivatives or any other means. It is expressed as a ratio of the Company's exposure to its Net Asset Value. In summary, the gross method measures the Company's exposure before applying hedging or netting arrangements. The commitment method allows certain hedging or netting arrangements to be offset. ASCoT has no hedging or netting arrangements.

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 dividends paid to Shareholders were reinvested at the Net Asset Value at the time the shares were quoted ex-dividend.

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).

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.

Shareholder Information

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 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)

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

14 Melville Street
Edinburgh EH3 7NS
Registered in Scotland No. 126524

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Kent BR3 4TU
Tel: 0871 664 0300 (calls cost 10p per minute plus network extras)
Website: www.capitaregistrars.com

Depositary

National Westminster Bank plc
Trustee & Depositary Services
The Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH3 7NS

Bankers

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

Custodian

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Independent Auditor

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Solicitors and Sponsors

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Edinburgh EH2 4DF

J. Thomson Colour Printers