Aberforth Smaller Companies Trust plc

Annual Report and Financial Statements

31 December 2016

Contents

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive (AIFMD) requires certain information to be made available to investors prior to their investment in the shares of the Company. The Company's Investor Disclosure Document, which is available for viewing at www.aberforth.co.uk, contains details of the Company's investment objective, policy and strategy together with leverage and risk policies.

Strategic Report

The Board is pleased to present the Strategic Report on pages 1 to 17 which incorporates the Chairman's Statement and Managers' Report. It has been prepared by the Directors in accordance with Section 414 of the Companies Act 2006, as amended.

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.

Total Return Performance

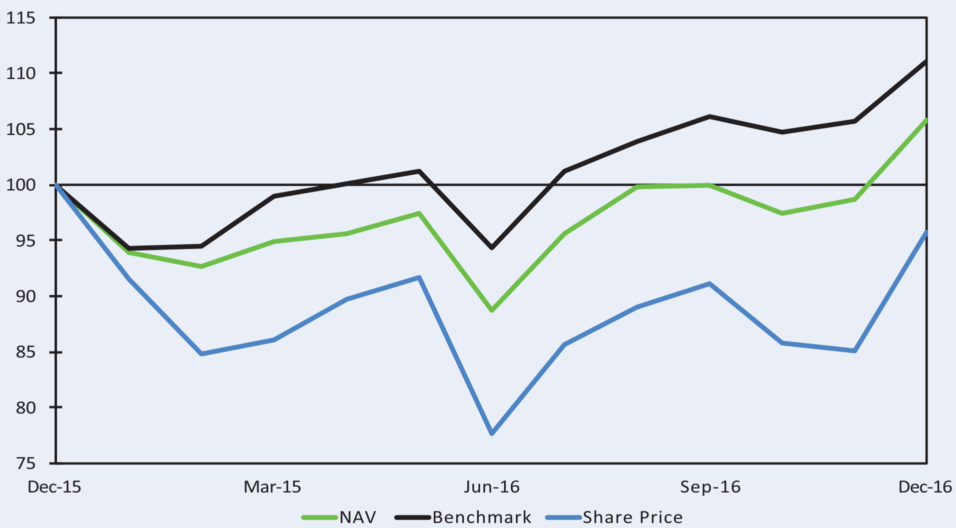
Year to 31 December 2016

	%
Net Asset Value per Ordinary Share	**5.8**
Numis Smaller Companies Index (excl. Investment Companies)	**11.1**
Ordinary Share Price	**-4.2**

Financial Highlights

	31 December 2016	31 December 2015	% Change
Shareholders' Funds	**£1,220.2m**	£1,191.9m	2.4
Market Capitalisation	**£1,046.9m**	£1,133.6m	-7.6
Actual Gearing employed	**2.7%**	0.3%	N/A
Ordinary Share net asset value	**1,292.57p**	1,254.30p	3.1
Ordinary Share price	**1,109.00p**	1,193.00p	-7.0
Ordinary Share discount	**14.2%**	4.9%	N/A
Revenue per Ordinary Share	**36.93p**	35.03p	5.4
Dividends per Ordinary Share	**30.10p**	28.75p	4.7
Ongoing Charges	**0.80%**	0.79%	N/A
Portfolio Turnover	**17.3%**	37.0%	N/A

Absolute Performance over past year
(figures are total returns and have been rebased to 100 at 31 December 2015)



Chairman's Statement

Review of 2016 performance

Last year proved difficult for small UK quoted companies when compared with the returns of larger companies. The FTSE 100 Index gave a total return of 19.1%, while the return of the FTSE All-Share Index, which is heavily weighted towards large companies, was 16.8%. By comparison, the Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)), the Company's benchmark, generated a return of 11.1%. The Company's net asset value total return was 5.8%, while the widening of the discount from 4.9% to 14.2% led to a share price total return of -4.2%. The UK smaller company investment trust sector was negatively affected by the EU referendum as discounts widened to reflect the economic uncertainty stemming from the result.

The Managers' Report expands in more detail on 2016's performance and puts it into the longer term context of the three year continuation vote period.

Dividends

The positive dividend environment within the small UK quoted companies sector continues. In this context, the Board is pleased to propose a final ordinary dividend of 18.75p. This results in total ordinary dividends for the year of 27.35p, which represents an increase of 5.2% on 2015.

In 2016, the income account benefited from the receipt of five special dividends paid by investee companies. As was the case last year, the Board is proposing the payment of a special dividend of 2.75p per share (2015: 2.75p) in addition to the final ordinary dividend, thus ensuring the all-important retention test is passed to allow the Company to continue to operate as an investment trust in the eyes of HMRC.

The Board remains committed to a progressive dividend policy. The Company's revenue reserves, after adjusting for payment of both the final ordinary and special dividends, amount to 52.3p per share (up from 45.1p as at 31 December 2015) and provide a degree of flexibility for the future. As in my statement last year, I would note that the base level for the Company's progressive dividend policy in 2016 is 27.35p, i.e. excluding the special dividend.

Both dividends are subject to Shareholder approval at the 2017 Annual General Meeting and will be paid on 3 March 2017 to Shareholders on the register at the close of business on 10 February 2017. Their ex dividend date is 9 February 2017.

Continuation vote

It is the Company's policy to hold a continuation vote every three years. The Annual General Meeting on 1 March 2017 will see the eighth such vote in its history and the first since I assumed the chair. The Board views the vote as a key shareholder right and we would encourage all Shareholders to exercise this right. The 2017 vote occurs against a backdrop where the returns from the Company have been below those of the NSCI (XIC) since the last vote. It is the role of the Board, in representing shareholders, to understand fully the factors that have affected performance over any given period. The current Board benefits to the extent that third party information has become more readily available, particularly when it comes to analysing the size and style influences that are at work in the UK smaller quoted sector. For the three year period to 31 December 2016, and indeed for much of the last decade, the value investing style has experienced consistent, and at times, severe headwinds, which have hampered the relative performance of the Company. The Board, in recommending a vote in favour for the continuation of the Company, is acknowledging the impact of the value investing style on the three year numbers but also its positive role in the creation of the excellent long term record as illustrated on page 6. Given the longer term evidence, the Board continues to be encouraged by the Managers' adherence to their value discipline, particularly over the past decade, which has been so hostile to this investment style. The Board, in monitoring performance, continues to believe that long term results give a much stronger indication of skill than short term figures.

Alongside the investment style analysis, which supports the Board's recommendation to vote in favour, is the Board's confidence in the Managers. This reflects their single asset focus, their commitment to restrict the business in terms of assets managed, the experience of the team and their significant stake in the Company. These factors, while by no means guaranteeing future outperformance, do, in the view of the Board, "tilt the scales" in the Company's favour while avoiding at least some of the pitfalls that have hampered the broader fund industry.

Chairman's Statement

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 26 year history. The existing £125m facility with The Royal Bank of Scotland has a term expiring in June 2017. As has been the case in the past, the facility term dovetails with the three yearly continuation vote cycle. After the Annual General Meeting, and providing the continuation vote is duly passed, the Board and the Managers will seek to put in place a new facility which would continue to provide the Company with access to liquidity for investment purposes and to fund share buy-ins as and when appropriate. In an illiquid, and at times volatile, asset class such as small UK quoted companies, having access to immediate funds through a credit facility provides the Managers with enhanced flexibility. At the year end, gearing stood at 2.7% of Shareholders' funds. During the year, the level of gearing ranged from 0.3% to 4.2% with an average of 2.7%.

Share buy-in

At the Annual General Meeting in March 2016, the authority to buy in up to 14.99% of the Company's Ordinary Shares was approved. During the year, 620,500 Ordinary Shares (0.7% of the issued share capital) were bought in at a total cost of £6.28m million. Consistent with the Board's stated policy; those Ordinary 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 1 March 2017.

Outlook

2016 was a remarkable year as the UK voted to leave the EU and the United States embraced "populism" by electing Donald Trump. Undoubtedly, Brexit has introduced an additional level of uncertainty for British business, which I suspect will continue to be a feature for some time. Ironically, amidst all this apprehension, financial markets have started to move in a manner that should be more helpful for the Company. As the year drew to a close, value investing, as a style, performed strongly around the globe, though less pronounced in the UK small quoted arena where Brexit uncertainty looms large. Nevertheless, the Company's stronger second half, with a net asset value total return of 19.2% compared to the 17.7% return generated by the NSCI (XIC), benefited from a slight style tailwind.

The interdependency of politics and economics currently appears elevated. 2017 will serve up further challenges and opportunities. By this time next year we may indeed have a little more clarity on Brexit, perhaps greater clarity on what President Trump's America looks like and a series of elections will provide feedback on where European populism lies. In financial markets, the struggle between inflation and deflation and to what extent fiscal stimulus returns to the economic stage are likely to be important factors. The so called "reflation trade" could easily herald better times for the value investor, but stagflation against a backdrop of growing protectionism would undoubtedly be more challenging for equities in general.

However, with small UK quoted companies on their lowest rating since 2000 when compared with large companies and after a decade long bear market for the value style, it seems plausible that some of the headwinds of recent years could shift to become tailwinds for the Company over the coming years.

Finally, the Board welcomes the views of Shareholders and we are always available to talk to Shareholders directly. I have very much enjoyed and gained huge benefit from the conversations I have had with those Shareholders who have been in touch. My email address is noted below.

Paul Trickett
Chairman
27 January 2017
paul.trickett@aberforth.co.uk

Investment Policy and Strategy

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 2017 (the date of the last annual index rebalancing), the index included 349 companies, with an aggregate market capitalisation of £157 billion, and its upper market capitalisation limit was £1.4 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 either where 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 2016, ranged from 0.3% to 4.2%. Further details can be found in note 11 to the Financial Statements.

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

Investment Strategy

The Managers adhere to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the Company's holdings will usually be on more attractive valuations 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. 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 risks faced by the Company and seeks to manage these risks through continual review, evaluation, mitigating controls 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. Further information regarding the review process can be found in the Corporate Governance and Audit Committee Reports.

(i) Investment policy/performance risk – the Company's portfolio is exposed to share price movements due to the nature of its investment policy and strategy. The performance of the investment portfolio will typically differ from 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 by ensuring the investment portfolio is managed appropriately. The Board has outsourced portfolio management to experienced managers with a clearly defined investment philosophy and investment process. The Board receives regular and detailed reports on investment performance including detailed portfolio analysis, risk profile and attribution analysis. Senior representatives of Aberforth Partners attend each Board meeting. 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 will enhance returns; however, in falling markets the gearing effect will 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 outwith the Company's control affecting the reputation of the Company and/or the key service providers and take action if appropriate.*

(v) 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 losing investment trust status and, as a consequence, any capital gains would then be subject to capital gains tax. *The Board receives quarterly compliance reports from the Secretaries to evidence compliance with rules and regulations, together with information on future developments*. *The Board closely monitors political developments and, in particular, is mindful of the uncertainty following the UK referendum result to leave the EU.*

Viability Statement

The Directors have assessed the viability of the Company over the five years to December 2021, taking account of the Company's position, its investment strategy, and the potential impact of the relevant principal risks detailed above. Based on this assessment, the Directors have a reasonable expectation that the Company will meet its liabilities as they fall due and be able to continue in operation, notwithstanding that the Company's shareholders are to vote on the continuation of the Company on 1 March 2017 and again in 2020.

In making this assessment, the Directors took comfort from the results of a series of stress tests that considered the impact of a number of severe market downturn scenarios on the Company's financial position and, in particular, its ability to settle projected liabilities of the Company as they fall due. The Company invests in companies listed and traded on the London Stock Exchange. These are actively traded and, whilst less liquid than larger quoted companies, the portfolio is well diversified by both numbers of holdings and industry sector. The Directors determined that a five year period to December 2021 is an appropriate period for which to provide this statement given the Company's long term investment objective, the simplicity of the business model, the resilience demonstrated by the stress testing and the relatively low working capital requirements.

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. Information on the Company's performance is provided in the Chairman's Statement and Managers' Report and a record of these measures is shown below. In addition to the above, the Board considers the share price discount against its investment trust peer group each day.

Historic Total Returns

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2016	**5.8**	**11.1**	**-4.2**
1 year to 31 December 2015	10.2	10.6	13.9
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

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2016	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2014	8.0	10.8	4.4	16.6	22.9	9.0
3 years from 31 December 2013	5.0	6.4	3.0	15.8	20.6	9.1
4 years from 31 December 2012	15.3	13.4	15.3	76.4	65.1	76.8
5 years from 31 December 2011	18.4	16.5	20.5	132.7	114.6	154.3
6 years from 31 December 2010	12.4	11.8	12.9	101.4	95.0	107.4
7 years from 31 December 2009	14.3	14.0	14.3	154.9	150.5	154.6
8 years from 31 December 2008	17.7	19.0	19.1	268.1	302.7	305.5
9 years from 31 December 2007	9.3	10.1	10.7	122.1	138.3	150.0
10 years from 31 December 2006	7.1	8.1	7.5	99.1	118.4	106.7
15 years from 31 December 2001	11.3	10.9	11.5	400.6	373.1	413.1
20 years from 31 December 1996	11.7	10.0	11.4	822.1	569.4	764.9
26.1 years from inception on 10 December 1990	13.6	11.2	13.0	2,682.3	1,480.4	2,326.6

Ten Year Summary

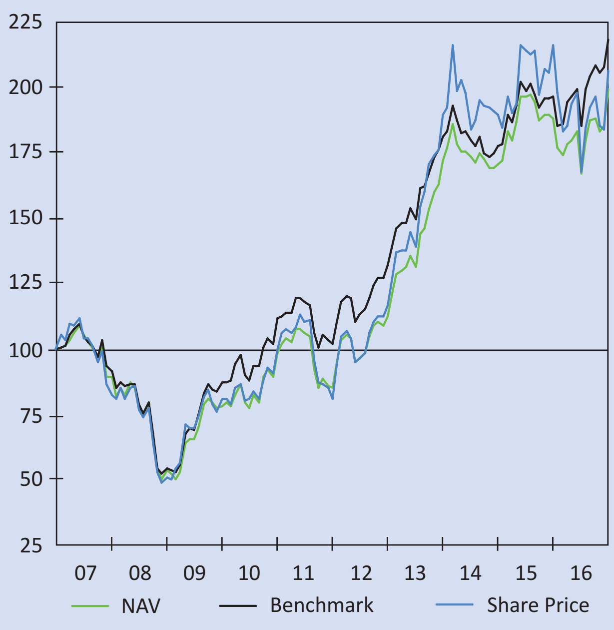
As at 31 December	Net asset Value per Share p	Share Price p	Discount %	Revenue per Ordinary Share p	Dividends per Ordinary Share net p	Ongoing Charges %	Gearing %
2016	**1,292.6**	**1,109.00**	**14.2**	**36.93**	**30.10**	**0.80**	**2.7**
2015	1,254.3	1,193.00	4.9	35.03	28.75	0.79	0.3
2014	1,161.4	1,072.00	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	–

Key Performance Indicators

Ten Year Investment Summary

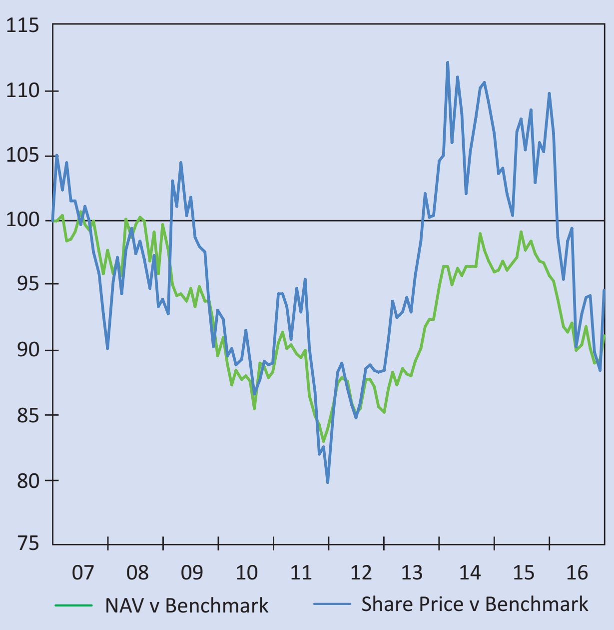
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2006)



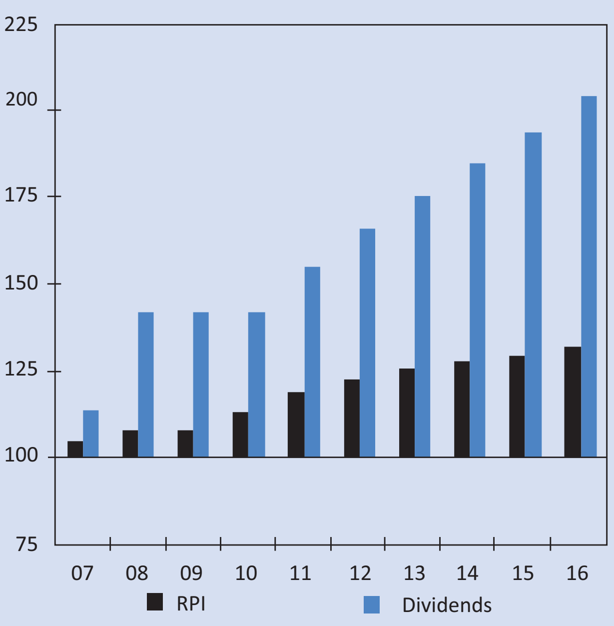
Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2006)



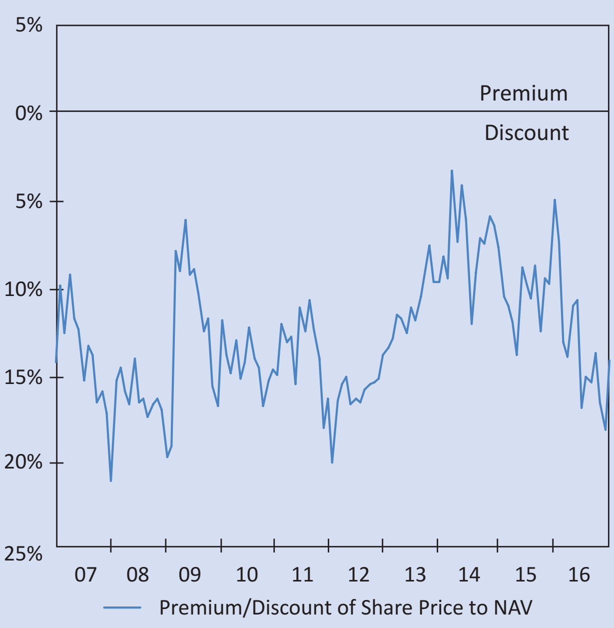
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 2006)



Premium/Discount

(being the difference between Share Price and NAV)



Managers' Report

Introduction

ASCoT's total return in the twelve months to 31 December 2016 was 5.8%. This was below the benchmark's return, with the NSCI (XIC) up by 11.1%. Both ASCoT and small companies in general were some way behind large companies: the FTSE All-Share's total return was 16.8%.

The year under review also marks the end of a continuation vote cycle. Over the three years, ASCoT's total return was 15.8%, which may be compared with 20.6% for the NSCI (XIC) and with 19.3% for the FTSE All-Share. This represents a disappointing relative performance. The following paragraphs describe the general influences on ASCoT's returns over the three years, summarise specific issues on an annual basis and look in greater depth at performance in 2016.

Performance review

Over the three year period, politics started to exercise greater influence on financial markets than has been the case for some time. From the Scottish independence referendum in 2014, through Brexit and the election of Donald Trump, political risk rose and remains elevated. The themes of populism, inequality and a challenge to the "liberal elite" are cited to link unexpected electoral developments around the world. Hand in hand with this come the threat of protectionism and challenges to the central bank orthodoxy of quantitative easing and ultra low interest rates. Over the course of the continuation vote cycle, the underlying problems facing the UK and global economies were unchanged – namely sluggish real growth, high indebtedness and deflation – but the means of addressing them might be on the point of transformation.

Inspired by Brexit and encouraged by both US presidential candidates promising greater fiscal stimulus, the financial markets were starting to toy with the possibility of a more inflationary turn of events in the middle of the year. It was, however, Trump's victory that prompted a decisive re-evaluation of the outlook. Resources companies, whose share prices had begun a rebound in February following five years of extreme weakness, were given renewed impetus on the expectation of infrastructure investment. Meanwhile, the inflationary implications of populist policies drove bond yields sharply higher to challenge the consensus deflationary positioning that has held sway for much of the time since the financial crisis.

Against the background sketched in the preceding paragraphs, ASCoT's investment returns varied widely year to year. The following summaries of individual years describe the principal influences on performance, starting with 2013, which, though not in the most recent continuation vote period, provides useful context.

2013 ASCoT +52.4% NSCI (XIC) +36.9% FTSE All-Share +20.8%

This was the year in which the financial markets last attempted to embrace the "great rotation": still buoyed by Mario Draghi's bravado in 2012, investors contemplated an acceleration in economic growth that would favour equities over bonds. Government bond yields thus rose sharply, which favoured the value investment style. ASCoT benefited accordingly.

2014 ASCoT -0.7% NSCI (XIC) -1.9% FTSE All-Share +1.2%

The optimism about economic progress of 2013 petered out, which was reflected in a relapse in government bond yields. This represented a complication for the performance of the value investment style. A good level of M&A activity protected ASCoT from the worst of a poor year for the asset class.

2015 ASCoT +10.2% NSCI (XIC) +10.6% FTSE All-Share +1.0%

This turned out to be a difficult twelve months for the value investor; indeed, within the context of the NSCI (XIC) it was the fourth worst year for the broad value style in sixty years. ASCoT managed to keep pace with the benchmark thanks to a further improvement in the incidence of M&A activity and to a relatively low exposure to resources companies, which continued to struggle in the face of high debt levels and falling commodity prices.

2016 ASCoT +5.8% NSCI (XIC) +11.1% FTSE All-Share +16.8%

As can be seen from the annual performance numbers above, ASCoT's relative performance over the three year continuation vote period is down to what happened in 2016. An important influence on relative returns was the bounce in the resources sectors, which started in the middle of February and without which the NSCI (XIC) would have been up by 5% in 2016. This resources rebound played to the relative strengths of the FTSE All-Share against the NSCI (XIC), with

Managers' Report

large companies possessing a much greater exposure than small to resources companies. Similarly, ASCoT's low exposure compared with the NSCI (XIC) hampered returns through 2016. That low exposure came through the miners rather than the oil companies. Indeed, the portfolio's weighting in the latter was higher than that of the index and thus ASCoT benefited as the oil price's recovery gathered pace. In total, the miners accounted for 316 of the 528 basis points under-performance in 2016 shown in the following table.

For the 12 months ended 31 December 2016	Basis points
Stock selection	(505)
Sector selection	6
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 16 basis points)	**(499)**
Movement in mid to bid price spread	21
Cash/gearing	17
Purchase of Ordinary Shares	9
Management fee	(70)
Other expenses	(6)
Total attribution based on bid prices	**(528)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 5.80%; Benchmark Index = 11.08%; difference is -5.28% being -528 basis points).

For the avoidance of doubt, the Managers do not ignore the mining sectors: they are analysed in the same detail and depth as other parts of the stockmarket. However, the subset of miners available within the NSCI (XIC) has certain characteristics that complicate investment from the Managers' perspective. First, the subset is highly indebted: a majority of the mining companies included in the NSCI (XIC) on its 1 January 2016 rebalancing had stretched balance sheets that threatened their survival and certainly prevented dividend payments. A second important factor is that many of the small miners remain controlled by oligarchs or family interests. This introduces an additional level of risk for minority shareholders and makes it difficult for the Managers to engage with the chairman in a useful fashion. In the rare cases where the Managers see these characteristics discounted by stockmarket valuations, they are willing to invest. Indeed, two of ASCoT's biggest winners last year were miners.

Beyond resources, large companies also benefited relative to small from the effects of June's EU referendum. The "out" vote was seen to be to the disadvantage of businesses addressing the domestic economy. The NSCI (XIC) has a greater exposure to such companies: roughly 59% of the accumulated historical sales of the index's constituents were generated in the UK, which compares with approximately 25% for large companies. The portfolio's exposure is around 53%. From this perspective, ASCoT was less affected than the benchmark by Brexit. However, the share prices of many domestic companies – notably retailers, property companies and housebuilders – were down over the year as a whole and therefore the referendum did affect ASCoT's absolute returns.

A more significant influence on ASCoT's relative performance was the Managers' value investment style. Thanks to the powerful rebound of the resources sectors, the value style, as defined by the London Business School and Style Research, pulled ahead of the growth style in 2016. However, this was due to the out-performance of the resources companies. This underlying style performance was consistent with the downward pressure on bond yields over the twelve months. Since the financial crisis, the correlation between falling bond yields and weaker returns for the value investor has been high. One of the reasons for this is that lower yields tend to be associated with a poorer outlook for economic growth. This is to the disadvantage of value since in today's market the typical value stock is cyclical, whereas bond-like equities, producing low but steady growth, have been re-rated to very high valuations that are more in keeping with those of traditional growth stocks. This state of affairs is unusual and, as described in the Conclusion of this report, gives the Managers cause for optimism: a move towards the inevitable normalisation of monetary conditions, such as was experienced in 2013 and has been seen since the US elections, would be to the benefit of the value investment style and by extension to ASCoT's returns.

Managers’ Report

The portfolio

Though meaningful, top-down influences on performance are somewhat removed from the Managers’ day-to-day focus on stock selection. This is not to gloss over the impact of weak share performances that resulted from company specific issues: as is the case in any twelve month period, the portfolio contained several companies that did not perform as expected, both negatively and positively. However, the Managers’ preference not to focus in any one year on the attribution to ASCoT’s performance of individual companies reflects an important aspect of their investment approach.

The Managers attempt to divorce the name of a stock, with all its baggage and history, from the valuation accorded to it at any point in time by a capricious stockmarket. The failure of an underlying business to meet expectations is reflected in some measure by its share price almost instantaneously: what the Managers have to do is work out whether the disappointment is indicative of on-going pressures on the business that will result in a permanent loss of value or whether the stockmarket has over-reacted and is thus presenting an incremental investment opportunity. In the Managers’ experience the latter is often the case, particularly in the financial conditions of recent years when the “certainty” of returns from those bond-like equities have been so highly prized. Additionally, some of the best contributors to ASCoT’s performance over its history have been stocks where the Managers’ initial purchases proved poor but where the discipline has been exercised to reassess after a disappointment and then judiciously to invest incremental capital often over a period of years.

For ASCoT to generate superior returns for its shareholders, getting more investment decisions right than wrong on average year after year probably does the job. Following the reasoning of the previous paragraph, this aspiration, which may come across as deceptively unambitious, is not about identifying more high quality businesses than low quality businesses and owning them forever – that is an approach followed by the growth investor. Rather, the aspiration is about retesting the value of companies both within and outwith the portfolio in relation to the share prices accorded to them by a volatile stockmarket, and, from this, it is about encouraging the circulation of ASCoT’s capital over time from those stocks with low upsides to those with high upsides.

In 2016, the opportunities to put this process into practice were fewer than usual. This is reflected in an unusually low level of portfolio turnover. With situations, such as M&A, in which ASCoT is effectively a forced seller excluded, the underlying rate of turnover was just 12%, half the long term average. This reflected the mood of the stockmarket: general interest in the sort of stocks owned by ASCoT was low, which meant that they were not revalued and that there was little reason to exit existing positions. A similar phenomenon was witnessed in 2012: in the annual report for that year the Managers expressed a desire for “turnover to return to more normal levels”. Given the unexpectedly sharp rebound in the following year, a re-run of 2013 would be welcome.

The Managers’ investment decisions resulted in a portfolio at 31 December 2016 with an active share of 76% assessed against the NSCI (XIC). Active share is a gauge of how different a portfolio is from an index. The higher the ratio, the higher the likelihood that the performance of the portfolio will differ, for better or worse, from that of the index. The Managers target a ratio of at least 70%, though would tolerate a temporarily depressed number. This target is assessed without the benefit of holdings that are not constituents of the index, since such holdings would flatter the ratio. The Managers believe that, with an active share of 76%, the portfolio is well placed to exploit a turn in the stockmarket back in favour of the value investment style.

In contrast to its lacklustre capital performance, the portfolio generated a good rate of income growth in 2016: 3.8% in headline terms. This number was affected by the receipt of several special dividends in 2016 and by an even larger contribution from special dividends in 2015. In underlying terms, with those lumpy special dividends excluded, the rate of increase rises to 12.5%. Adjusted for inflation this is far ahead of the 2.5% long term real dividend growth from small companies. These numbers highlight what was another good year for dividends from small companies in general. Encouraging boards to increase dividends are strong balance sheets: for illustration, companies with net cash on their balance sheets represent 29% of ASCoT’s portfolio. Another factor is relatively high dividend cover, which for the portfolio is 3x, well above the long term average of 2.6x. Additionally, trading conditions through 2016, while not buoyant, were sufficiently benign to allow small companies to move their profits ahead, notwithstanding the uncertainties engendered by the EU referendum and other big picture issues. Nevertheless, the above average pace of small company dividend growth enjoyed in recent years has to decline close to that long term average. The Valuations section below gives consideration to the risk of a downturn in the domestic economy, brought on by the uncertainties stemming from the EU referendum.

Managers' Report

Valuations

The years since the financial crisis have seen valuation relationships develop within and between financial markets to levels that are unusual in a long term historical context. Most fundamentally, quantitative easing and zero interest rate policy resulted in the re-establishment of the "yield gap": for the first sustained period of time since the 1950s, equities yield more than government bonds. Lower bond yields have been a handicap to the returns of the value investor, on the whole. The qualification is necessary since it is likely that ASCoT has enjoyed some mitigation by virtue of the above average yields of its typical holdings. Those yields became more sought after as bond yields declined and starved the investment world of income. This dynamic aside, the evolution of today's valuation relationships has been a headwind to the Managers' value investment style. More positively, a normalisation of the valuation stretches, which are illustrated below, will be of benefit to ASCoT's future returns.

	31 December 2016		31 December 2015	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**87**	**349**	86	349
Weighted average market capitalisation	**£617m**	**£800m**	£567m	£750m
Price earnings ratio or PE (historic)	**11.3x**	**12.5x**	12.5x	14.6x
Dividend yield (historic)	**3.0%**	**2.8%**	3.1%	2.7%
Dividend cover	**3.0x**	**2.9x**	2.6x	2.5x

Small against large

The table shows the historical price earnings ratios of the portfolio and of small companies as a whole; consistent with the Managers' value investment style, ASCoT's PE is lower. Over the course of 2016, the PE of small companies has dropped from 14.6x to 12.5x. In contrast, the PE of the FTSE All-Share has risen from 16.6x to 18.6x. This leaves small companies on their widest PE discount to large since 2000. The re-rating of large companies reflects the substantial exposure of the FTSE All-Share to the resources sectors, which rebounded strongly in 2016, and to other international companies, which benefited from sterling weakness following the EU referendum.

"Small small" against "large small"

Market cap. range	Below £100m	£100m - £250m	£250m - £750m	Above £750m
ASCoT exposure	4%	17%	45%	34%
Tracked universe exposure	1%	7%	34%	58%
Tracked universe EV/EBITA	9.4x	9.6x	11.6x	12.2x

The table shows that the UK stockmarket is presently characterised by a continuous size effect: the smaller the company, the lower the valuation within the tracked universe (representing 96% by value of the NSCI (XIC)). This is unusual in a longer term context: smaller companies have traditionally justified a higher valuation owing to their scope for superior, if more volatile, growth. Today's state of affairs would appear to reflect elevated concern about illiquidity, which has been in evidence since the financial crisis. ASCoT, as a closed-end fund, is able to take a longer term view and to exploit the opportunity to own companies with better growth prospects on lower valuations.

Value against growth

EV/EBITA	Growth	Other	Tracked	ASCoT
Number of stocks	40	244	284	87
2017 on prevailing estimates	16.4x	11.0x	11.7x	10.1x
2017 with a downturn	18.6x	13.0x	13.7x	11.9x

The ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA) is the Managers' preferred valuation metric. The table shows the 2017 ratios for ASCoT, for the tracked universe and for two subdivisions of the tracked universe, i.e. 40 growth stocks and the 244 other companies. Two scenarios are set out for 2017. The first is based on prevailing estimates and reveals a wide gap between the valuation of the growth stocks and ASCoT's portfolio, with the former on a 62% premium to the latter.

Managers’ Report

The second basis acknowledges the risks of a slowdown in the UK economy, as Brexit takes its toll on spending decisions and weak sterling affects purchasing power. For the sake of simplicity, the downturn is assumed to start on 1 January 2017. A second main assumption is that the downturn reduces the EBITA of companies reliant on the domestic economy by 25%, which is roughly in line with the experience in 2009. Under this scenario, and as should be expected, the profits of ASCoT’s portfolio companies decline by more than those of the growth stocks, the effect of which is to reduce the EV/EBITA premium of the growth stocks over the portfolio to 56%. While a recession in 2017 is by no means certain, the scenario analysis highlights an important facet of the UK stockmarket’s valuation at the current time. The out-performance and re-rating of growth stocks since the financial crisis have been justified by concern about the vulnerability of cyclical value stocks to another recession. However, growth stocks emerge from a recession model still on a large valuation premium. For the Managers – biased value investors that they are – this suggests that some of the risk of a downturn may already be captured by today’s share prices.

Conclusion

It is disappointing to have to report on a year of poor performance, which has also undermined returns over the three years of the continuation vote period. It is particularly frustrating that this comes against a background in 2016 that is ostensibly more favourable to the value investor. However, value’s nascent fightback was concentrated in the highly indebted mining companies, at least in the early stages of the year. Intriguingly, the year ended with a welcome broadening of the stockmarket’s appetite for value stocks. The catalyst would appear to have been Donald Trump’s victory in the US election. His rhetoric and, presumably, his policies may mark a turn from austerity towards a reflationary strategy. The promise of tax cuts, fiscal stimulus and protectionism have challenged the positioning of financial markets, which reflected an expectation of low rates, deflationary pressure and subdued growth. Government bond yields have responded: ten year yields in the US ended the year at 2.4%, up from a mid year trough of below 1.4%, while ten year gilt yields moved up from 0.5% in August to 1.2% at the year end. As talk builds again of the “great rotation”, small value stocks in the UK have been caught up in the repricing of a reflationary outcome and ASCoT duly benefited as 2016 drew to a close.

The power of the rotation so far probably says more about how extreme some of the valuation stretches within financial markets had become. For the rotation to continue the new president has to deliver on his promises, while other familiar macro economic issues, not least Brexit, need to be negotiated. However, the valuations of ASCoT’s holdings already reflect much of the top-down risk and the underlying characteristics of these companies offer encouragement. Though cyclical, they are well managed, robustly funded and resilient enough businesses to have weathered the financial crisis and severe recession eight years ago. Stockmarket investors in general may still be reluctant to embrace these qualities, but it was notable that the year ended with an upsurge in takeover activity: once again bigger companies are exploiting the valuation anomalies on offer among the lower reaches of the UK stockmarket, with overseas predators given additional encouragement by the weakness of sterling.

For the Managers, the weight of history together with the underlying progress of the businesses in the portfolio give confidence that today’s valuations are anomalies and that over time these will be addressed to the benefit of ASCoT and the value style more generally. Given how powerfully turns in financial markets can play out, the Managers believe that ASCoT’s contrarian positioning remains as compelling and as relevant as at any point in the trust’s twenty six year history.

Aberforth Partners LLP
Managers
27 January 2017

Thirty Largest Investments

As at 31 December 2016

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	e2v technologies	36,462	3.0	Electronic components & subsystems
2	FirstGroup	35,538	2.9	Bus & rail operator
3	Paragon Group	35,396	2.9	Specialist lender
4	Vesuvius	35,093	2.9	Metal flow engineering
5	Northgate	31,752	2.6	Van rental
6	EnQuest	30,999	2.5	Oil & gas exploration and production
7	Brewin Dolphin Holdings	30,849	2.5	Private client fund manager
8	Nostrum Oil & Gas	27,067	2.2	Oil & gas exploration and production
9	Wincanton	25,938	2.1	Logistics
10	Grainger	25,877	2.1	Property - residential rentals
	Top Ten Investments	**314,971**	**25.7**	
11	Coats Group	23,187	1.9	Manufacture of threads
12	Computacenter	22,915	1.9	IT services
13	RPS Group	22,754	1.9	Energy & environmental consulting
14	Urban&Civic	22,744	1.9	Property - investment & development
15	Vitec Group	22,553	1.8	Photographic & broadcast accessories
16	Keller	22,536	1.8	Ground engineering services
17	Go-Ahead Group	21,950	1.8	Bus & rail operator
18	Ladbrokes Coral	21,687	1.8	Bookmaker & online gaming
19	Hogg Robinson Group	21,585	1.8	Travel & expense management
20	TT Electronics	20,955	1.7	Sensors & other electronic components
	Top Twenty Investments	**537,837**	**44.0**	
21	Hansteen Holdings	20,541	1.7	Property - industrial
22	SDL	20,501	1.7	Software - translation & content management
23	Bodycote	20,430	1.7	Engineering - heat treatment
24	John Laing Group	20,361	1.7	Infrastructure investment
25	Bovis Homes Group	20,023	1.6	Housebuilding
26	Shanks Group	19,873	1.6	Waste services
27	Senior	19,567	1.6	Aerospace & automotive engineering
28	De La Rue	18,758	1.5	Bank note printer
29	Speedy Hire	18,517	1.5	Plant hire
30	Robert Walters	18,332	1.5	Recruitment
	Top Thirty Investments	**734,740**	**60.1**	
	Other Investments	518,507	42.6	
	Total Investments	**1,253,247**	**102.7**	
	Net Liabilities	(33,019)	(2.7)	
	Total Net Assets	**1,220,228**	**100.0**	

Investment Portfolio

As at 31 December 2016

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Oil & Gas Producers	**70,235**	**5.7**	**3.3**
EnQuest	30,999	2.5	
Hardy Oil & Gas	1,321	0.1	
Nostrum Oil & Gas	27,067	2.2	
SOCO International	10,848	0.9	
Oil Equipment, Services & Distribution	**7,601**	**0.6**	**1.1**
Gulf Marine Services	7,601	0.6	
Chemicals	**7,078**	**0.6**	**1.9**
Carclo	7,078	0.6	
Industrial Metals & Mining	**–**	**–**	**0.5**
International Ferro Metals[1]	–	–	
Mining	**33,140**	**2.7**	**2.1**
Anglo Pacific Group	15,174	1.2	
Centamin	11,873	1.0	
Gem Diamonds	6,093	0.5	
Kenmare Resources Warrants 2019[2]	–	–	
Construction & Materials	**42,191**	**3.2**	**4.3**
Eurocell	12,526	0.9	
Forterra	1,691	0.1	
Keller	22,536	1.8	
Low & Bonar	5,438	0.4	
Aerospace & Defence	**19,567**	**1.6**	**1.9**
Senior	19,567	1.6	
General Industrials	**58,280**	**4.8**	**1.2**
Coats Group	23,187	1.9	
Vesuvius	35,093	2.9	
Electronic & Electrical Equipment	**75,432**	**6.2**	**2.1**
e2v technologies	36,462	3.0	
Morgan Advanced Materials	18,015	1.5	
TT Electronics	20,955	1.7	
Industrial Engineering	**54,140**	**4.4**	**2.5**
Bodycote	20,430	1.7	
Castings	11,157	0.9	
Vitec Group	22,553	1.8	
Industrial Transportation	**25,938**	**2.1**	**2.1**
Wincanton	25,938	2.1	
Support Services	**191,643**	**15.7**	**11.5**
Capital Drilling	3,687	0.3	
Connect Group	18,087	1.5	
De La Rue	18,758	1.5	
Essentra	8,602	0.7	
Hogg Robinson Group	21,585	1.8	
Management Consulting Group	1,295	0.1	
Menzies (John)	6,465	0.5	
Northgate	31,752	2.6	
Robert Walters	18,332	1.5	
RPS Group	22,754	1.9	
Shanks Group	19,873	1.6	
SIG	1,936	0.2	
Speedy Hire	18,517	1.5	
Beverages	**–**	**–**	**0.6**

Investment Portfolio

As at 31 December 2016

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Food Producers	**20,416**	**1.7**	**2.6**
Hilton Food Group	15,264	1.3	
R.E.A. Holdings	5,152	0.4	
Household Goods & Home Construction	**20,023**	**1.6**	**4.5**
Bovis Homes Group	20,023	1.6	
Leisure Goods	**16,222**	**1.3**	**0.6**
Games Workshop Group	16,222	1.3	
Personal Goods	**–**	**–**	**2.0**
Health Care Equipment & Services	**–**	**–**	**1.9**
Pharmaceuticals & Biotechnology	**18,163**	**1.5**	**2.6**
Vectura Group	18,163	1.5	
Food & Drug Retailers	**13,262**	**1.1**	**0.8**
McColl's Retail Group	13,262	1.1	
General Retailers	**64,115**	**5.3**	**5.5**
Carpetright	6,434	0.5	
DFS Furniture	6,723	0.6	
Findel	7,990	0.7	
Halfords Group	9,547	0.8	
Mothercare	11,788	1.0	
N Brown Group	5,433	0.4	
Pendragon	13,382	1.1	
Topps Tiles	2,818	0.2	
Media	**47,129**	**4.0**	**3.9**
Centaur Media	5,820	0.5	
Future	9,461	0.8	
Huntsworth	14,062	1.2	
ITE Group	857	0.1	
Trinity Mirror	16,929	1.4	
Travel & Leisure	**125,113**	**10.2**	**8.8**
Air Partner	3,400	0.3	
FirstGroup	35,538	2.9	
Flybe Group	11,338	0.9	
Go-Ahead Group	21,950	1.8	
Ladbrokes Coral	21,687	1.8	
Punch Taverns	13,826	1.1	
Restaurant Group	17,374	1.4	
Fixed Line Telecommunications	**876**	**0.1**	**1.1**
KCOM Group	876	0.1	
Electricity	**–**	**–**	**0.1**
Gas, Water & Multiutilities	**–**	**–**	**0.1**
Banks	**–**	**–**	**3.3**
Nonlife Insurance	**12,399**	**1.0**	**1.7**
Novae Group	12,399	1.0	
Life Insurance	**23,237**	**1.9**	**1.3**
Hansard Global	7,901	0.6	
JRP Group	15,336	1.3	
Real Estate Investment & Services	**63,614**	**5.2**	**6.0**
Countrywide	6,208	0.5	
Grainger	25,877	2.1	
U and I Group	8,785	0.7	
Urban&Civic	22,744	1.9	

Investment Portfolio

As at 31 December 2016

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Real Estate Investment Trusts	**33,502**	**2.8**	**5.6**
Hansteen Holdings	20,541	1.7	
McKay Securities	12,961	1.1	
Financial Services	**116,609**	**9.6**	**6.7**
Brewin Dolphin Holdings	30,849	2.5	
Charles Stanley Group	8,753	0.7	
CMC Markets	3,555	0.3	
International Personal Finance	17,695	1.5	
John Laing Group	20,361	1.7	
Paragon Group	35,396	2.9	
Software & Computer Services	**67,018**	**5.6**	**4.5**
Computacenter	22,915	1.9	
Microgen	10,476	0.9	
RM	13,126	1.1	
SDL	20,501	1.7	
Technology Hardware & Equipment	**26,304**	**2.2**	**1.3**
Filtronic	2,706	0.2	
Laird	6,782	0.6	
Spirent Communications	16,816	1.4	
Investments as shown in the Balance Sheet	**1,253,247**	**102.7**	**100.0**
Net Liabilities	(33,019)	(2.7)	–
Total Net Assets	**1,220,228**	**100.0**	**100.0**

[1] Listing suspended.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2017.

Summary of Material Investment Transactions

For the year ended 31 December 2016

Purchases	Cost £'000	Sales	Proceeds £'000
Restaurant Group	18,024	Centamin	21,721
John Laing Group	15,989	Premier Farnell	20,336
JRP Group	13,508	Hilton Food Group	18,920
Nostrum Oil & Gas	11,135	KCOM Group	17,493
EnQuest	9,767	Home Retail Group	15,913
U and I Group	9,526	Shanks Group	13,350
Senior	8,904	Wireless Group	7,739
Essentra	7,996	Chemring Group	7,222
Halfords Group	7,141	De La Rue	6,937
Carpetright	6,988	Bovis Homes Group	6,736
Gem Diamonds	6,758	Revolution Bars Group	6,168
CMC Markets	6,543	e2v technologies	5,850
Laird	6,344	Morgan Advanced Materials	5,372
Keller	5,957	ITE Group	5,174
Menzies (John)	5,415	Go-Ahead Group	4,777
Computacenter	5,202	Rank Group	4,448
N Brown Group	4,634	Novae Group	3,948
FirstGroup	4,212	Computacenter	3,917
McKay Securities	3,897	Mothercare	3,199
Ladbrokes Coral	3,716	Brammer	2,259
Other Purchases	69,397	Other Sales	19,657
Total Purchases (incl. transaction costs)	**231,053**	**Total Sale Proceeds (incl. transaction costs)**	**201,136**

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2015 NSCI (XIC) Weight %	31 December 2015 Portfolio Weight %	31 December 2015 Portfolio Valuation £'000	Net[1] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**31 December 2016 Portfolio Valuation £'000**	**31 December 2016 Portfolio Weight %**	**31 December 2016 NSCI (XIC)[2] Weight %**
Oil & Gas	4	4	44,878	22,180	10,778	**77,836**	**6**	**4**
Basic Materials	5	3	30,137	(15,865)	25,946	**40,218**	**3**	**4**
Industrials	23	34	411,859	(9,486)	64,818	**467,191**	**38**	**26**
Consumer Goods	8	6	74,470	(21,217)	3,408	**56,661**	**5**	**10**
Health Care	6	2	19,439	1,157	(2,433)	**18,163**	**1**	**5**
Consumer Services	21	24	287,640	9,079	(47,100)	**249,619**	**20**	**19**
Telecommunications	1	2	18,830	(17,493)	(461)	**876**	**–**	**1**
Utilities	1	–	–	–	–	**–**	**–**	**–**
Financials	25	19	233,883	52,553	(37,075)	**249,361**	**20**	**25**
Technology	6	6	74,445	9,009	9,868	**93,322**	**7**	**6**
	100	100	1,195,581	29,917	27,749	**1,253,247**	**100**	**100**

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2015 No. of Companies	31 December 2015 Portfolio Valuation £'000	31 December 2015 Portfolio Weight %	31 December 2015 NSCI (XIC) Weight %	**31 December 2016 No. of Companies**	**31 December 2016 Portfolio Valuation £'000**	**31 December 2016 Portfolio Weight %**	**31 December 2016 NSCI (XIC)[2] Weight %**
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	27	476,720	40	63	**26**	**507,359**	**41**	**62**
FTSE SmallCap	40	608,769	51	30	**37**	**501,013**	**40**	**29**
FTSE Fledgling	7	23,294	2	1	**7**	**40,590**	**3**	**1**
Other	12	86,798	7	6	**17**	**204,285**	**16**	**8**
	86	1,195,581	100	100	**87**	**1,253,247**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2017.

Other Information

Company Status

The Company is a 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.

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 2016, 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 does 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. The Company's and the Managers' approach to social, environmental and ethical issues is set out within the Corporate Governance Report on page 25.

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 27 January 2017 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: 6,860 Ordinary Shares

Paul is a non executive director on a number of companies. As well as chairing Aberforth Smaller Companies Trust, he also chairs Railpen Investments and sits on the Board of Aviva Life UK, Insight Investment and Thomas Miller Holdings. 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: 3,000 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 The Biotech Growth Trust plc, 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: 2,100 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: £ 29,000 p.a.
Shareholding in the Company: 7,735 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 Adviser.

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 corporate advice to both listed and unlisted companies. He is also a director of Chaarat Gold Holdings Limited.

Directors' Report

The Directors submit their Annual Report and Financial Statements for the year ended 31 December 2016.

Directors

The Directors of the Company during the financial year are listed on page 18. Further information about 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, depositary and custodial activities of the Company.

Objective, Investment Policy, Investment Strategy and Risks

These are explained fully in the Strategic Report on pages 1, 4 and 5.

Return and Dividends

The total return attributable to shareholders for the year ended 31 December 2016 amounted to a gain of £62,352,000 (2015: gain of £112,178,000). The net asset value per Ordinary Share at 31 December 2016 was 1,292.57p (2015: 1,254.30p).

Your Board is pleased to declare a final dividend of 18.75p and a special dividend of 2.75p (total of £20,291,000), which produces total dividends for the year of 30.1p (total of £28,437,000). The final and special dividends, subject to Shareholder approval, will be paid on 3 March 2017 to Shareholders on the register at the close of business on 10 February 2017.

Investment Managers

Aberforth Partners LLP (the firm, Managers or Aberforth) act as Alternative Investment Fund Manager and Secretaries to the Company. The business 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 £2.3 billion (as at 31 December 2016). The firm is wholly owned by five partners – four of whom are investment managers. Seven investment managers work as a team managing the Company's portfolio on a collegiate basis: Euan Macdonald, Keith Muir, Richard Newbery, Peter Shaw, Christopher Watt, 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 0.75% of the net assets up to £1 billion, and 0.65% thereafter. The management fee amounted to £8,296,000 in the year ended 31 December 2016 (2015: £8,755,000).

The secretarial fee amounted to £79,940 (excluding VAT) during 2016. 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.

Directors' Report

Depositary

National Westminster Bank plc 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 that 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 securities 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 2016, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 94,403,292 were issued and fully paid. During the year, 620,500 shares (0.7% of the Company's issued share capital with a nominal value of £6,205) were bought back and cancelled at a total cost of £6,282,000. 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 per share (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 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, shareholders are asked every three years to vote on the continuation of the Company and an ordinary resolution will be proposed at the Annual General Meeting to be held on 1 March 2017. The Directors are recommending that the Company's shareholders vote in favour of this resolution.

If such resolution is not passed, the Directors will prepare and submit to shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If such proposals are not approved, shareholders will, within 180 days of the 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 "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" 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 and performance 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, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet any funding requirements, though funding flexibility can typically be achieved through the use of the bank debt facility. The Company has adequate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that shareholders are likely to support a recommendation for the Company's continuation.

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.

Notifiable 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 2016 and 27 January 2017. The total number of votes amounted to 94,403,292 at 31 December 2016. Following the buy-in on 24 January 2017, and subsequent cancellation, of 25,000 shares, the total number of votes at 27 January 2017 amounted to 94,378,292.

Interested person	Percentage of Voting Rights Held
Investec Wealth & Investment Limited	8.4
Brewin Dolphin Limited	8.3
Rathbone Brothers plc	5.5

Annual General Meeting

The AGM will be held on Wednesday, 1 March 2017 at 6.00 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM:

Purchase of Own Shares

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the AGM. Resolution 13, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2018. 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 or warrants to subscribe for equity shares in the capital of the Company.

Directors' Recommendation

The Directors consider each resolution being proposed at the AGM, including the continuation vote, 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.

Additional information in respect 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 23 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.

Post Balance Sheet Events

On 24 January 2017, the Company bought in and subsequently cancelled 25,000 shares at a total cost of £279,000.

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
27 January 2017

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 2016 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 relevant and comprehensive information to shareholders. Both the AIC Code and the AIC Guide are available on the AIC website at www.theaic.co.uk. This report forms part of the Directors' Report on pages 19 to 22.

Compliance

Throughout the year ended 31 December 2016 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 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 are available on request and available 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 important 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 account, 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.

Appointments to the Board

No directors were appointed during 2016.

Corporate Governance Report

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

January	April	July	October
Consider Final Dividend	Shareholder Communication	Consider Interim Dividend	Internal Control Review
Approval of the Annual Report	Review of Gearing	Approval of Half Yearly Report	Corporate Governance Review
Review of Investment Trust Peer Group		Review of significant interests	Review Managers' continued appointment and remuneration
		Annual Strategy Review	Board & Committee Evaluation
			Review of Directors' Fees

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). Paul Trickett and Paula Hay-Plumb, upon invitation, attended the Audit Committee in July 2016. All Directors also attended the AGM in March 2016.

Director	The Board Eligible to attend	 Attended	Audit Committee Eligible to attend	 Attended
S P Trickett, Chairman	5	5	1	1
P M Hay-Plumb	5	4	1	1
D J Jeffcoat	5	5	4	4
J Le Blan	5	5	4	4
R A Rae	5	5	4	4

Board performance and re-appointment of Directors

The Board undertakes a formal annual assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Board appointed Lintstock Limited to facilitate an external review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which were summarised and discussed in October 2016, providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman was led by the Chairman of the Audit Committee. It has been agreed that the Board evaluation will be externally facilitated every three years.

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 qualifying third party deeds 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 deeds were in force during the year to 31 December 2016 and up to the date of approval of this report. 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. The Company Secretaries are also responsible for advising the Board through the Chairman on all governance matters.

Corporate Governance Report

Conflicts of Interest

Company directors have 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 managing 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 internal control systems and for reviewing their effectiveness. The Company applies the revised guidance published by the Financial Reporting Council on internal controls. 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 Company's financial information is reliable. The Directors have a robust on-going process for identifying, evaluating and managing the significant risks faced by the Company, which are recorded in a risk matrix. The Board considers each risk as well as reviewing the mitigating controls in place. Each risk is rated for its "likelihood" and "impact" and the resultant numeric rating determines its ranking into High, Medium or Low Risk. 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 internal control systems.

Relations with Shareholders

The Board places great importance on communication with shareholders. Directors of the Company are always available to meet with any shareholder on request. The Managers meet the larger shareholders twice a year to provide them with a detailed report on the progress of the Company and to receive feedback from shareholders. The Board receives reports from the Managers of these shareholder meetings. 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 via the Secretaries whose details are shown on the 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 where the Directors and Managers are available to discuss important issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

Socially Responsible Investment

The Directors, through the Managers, encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Managers believe that sound social, environmental and ethical 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 social, environmental and ethical concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

UK Stewardship Code

The Board and the Managers support the UK Stewardship Code, issued by the FRC in September 2012, which sets out the principles of effective stewardship by institutional investors. The Company's investment portfolio is managed by Aberforth Partners LLP who invest exclusively in small UK quoted companies and, as a significant investor within this asset class, the Managers have a strong commitment to effective stewardship.

The Board has reviewed, and endorses, the Managers' Stewardship Policy, which is available within the literature library section of the Managers' website, at www.aberforth.co.uk.

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.

By Order of the Board
Paul Trickett
Chairman
27 January 2017

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. 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 principal risks are identified;
- monitoring the mitigating controls that have been established;
- 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 main 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, a meeting Plan has been adopted which is reviewed annually. This is the latest version:

Audit Committee Annual Plan

January

- Annual Report including judgemental areas, going concern, letter of representation, expense analysis and Annual Report announcement
- Key Risks
- Provision of non-audit services, including taxation compliance services
- Custodian's Controls Report update
- Audit meeting/ evaluation of the audit including auditor independence
- Investment Trust Status

April

- Meetings to be called if required

July

- Half Yearly Report including judgemental areas, expense analysis and Half Yearly Report announcement
- Key Risks
- Investment Trust Status
- Basis of Management Fee allocation (every three years)
- Committee's Terms of Reference
- Audit Fees

October

- Corporate Governance Compliance
- Key Risks
- Self evaluation of the Committee
- Investment Trust Status
- Audit Plan
- Internal Controls Review including reports from the Managers and other third parties
- Auditor Plan, together with the Terms of Engagement
- Depositary Report

Meetings

Three meetings are typically held each year. An additional meeting was held in December 2016. 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.

During the last twelve months the Committee has focused on the areas described below.

Audit Committee Report

Financial Reporting

The half yearly financial results, published on 27 July 2016, 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 Half Yearly Report, together with other aspects such as going concern.

In January 2017 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 2016. This included details of the steps it had taken to confirm the valuation and ownership of the investment portfolio. 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. The Chairman of the Committee had previously discussed the result of the audit and the Annual Report with the audit partner without representatives of Aberforth Partners being present. Consequently, the Committee concluded that it was satisfied as to:

- the ownership and valuation of the investment portfolio as at 31 December 2016;
- revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period; and
- the allocation of expenses between revenue and capital.

The Committee read and discussed this Annual Report and concluded that it is fair, balanced and understandable. It provides the information necessary for shareholders to assess the Company's performance, objective and strategy.

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

Going Concern and Viability

The Committee received reports on going concern from the Secretaries in July and January, reflecting the guidance published by the Financial Reporting Council. 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 the main factor that led to this conclusion.

The Committee also assessed the viability of the Company. The Committee agreed that it was appropriate to provide a Viability Statement for a five year period for the reasons set out in the Statement on page 5. In January 2017, the Committee conducted a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' funds, the debt facility, investment income and also the potential loss of investment trust status. The outcome of this activity led the Committee to recommend to the Board to make the Statement on page 5.

Internal Control and Risks

The Committee carefully considered a 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 content of the Matrix during the year and believes that it continues to reflect accurately the Company's principal risks. These risks, which are detailed on page 5 of this Report, have not changed significantly during the year.

Also in October the Committee received the Managers' report on internal controls, including the assurance report issued by PricewaterhouseCoopers LLP (PwC) on the nature and effectiveness of the control framework that has been established by the Managers. A representative of PwC attended the meeting. In addition, the Committee received internal control reports from Northern Trust and Capita Registrars. 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 continues to closely monitor the increasing risk arising from cyber threats, notwithstanding that the Company outsources all of its activities to external parties. In July 2016, the Committee received a presentation from Capita Registrars on cyber security and the measures in place to protect shareholder information. This meeting was also attended by Paul Trickett and Paula Hay-Plumb. During the fourth quarter of 2016, the Committee also received reports outlining the key information security controls in place to protect the Managers' IT systems and the assurance that has been gained during the year about their effectiveness The Committee concluded that, although cyber attack is becoming an increasing threat to companies and public bodies worldwide, the Company has taken all reasonable steps to ensure that appropriate protection measures are in place. Nevertheless this particular threat will continue to be monitored closely in future.

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.

Audit Committee Report

Investment Trust Status

It is essential for the Company to maintain its investment trust status. The Committee confirms this point at each meeting with reference to a checklist prepared by the Secretaries. The position is also confirmed by the external auditor as part of the audit process.

External Auditor

Deloitte was appointed as the Company's auditor in April 2013 following a formal tender process. This appointment has been renewed at each subsequent AGM. Based upon existing legislation, 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 2016 audit. The plan set out the scope of the audit, the principal risks that would be addressed (as detailed in the Independent Auditor's Report), the timetable and the proposed fees. These amounted to £19,500, excluding VAT, for the year (2015: £19,500). There were no non-audit activities carried out by Deloitte.

Evaluation of the Auditor

Following the completion of the audit in January 2017, the Committee reviewed the Auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience and that Andrew Partridge, the audit partner, who has significant experience of the investment trust sector, had served for four reporting years. The audit partner is rotated every five 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 the re-appointment of Deloitte as the Company's auditor for the 2017 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

A formal external review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. This was facilitated by Lintstock Limited. The outcome was positive with no significant concerns expressed.

David Jeffcoat
Audit Committee Chairman
27 January 2017

Directors' Remuneration Policy

This section provides details of the remuneration policy applying to 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. 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. It is intended that this policy will remain in place for the following financial year and subsequent periods.

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 solely comprised Directors' fees as set out below and Directors are not eligible for any other remuneration.

The table below sets out the Directors' fees in respect of the years ended 31 December 2016 and 31 December 2017:

	Annual Fees 2017 £	Annual Fees 2016 £
Chairman of the Company	**34,500**	34,500
Director and Chairman of the Audit Committee	**29,000**	28,000
Director and Member of the Audit Committee	**24,500**	24,500
Director	**23,000**	23,000

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. 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 election/ re-election
S P Trickett, *Chairman*	30 January 2013	AGM 2017
P M Hay-Plumb	29 January 2014	AGM 2017
D J Jeffcoat	22 July 2009	AGM 2017
J Le Blan	29 January 2014	AGM 2017
R A Rae	26 January 2012	AGM 2017

Each Director's unexpired term is subject to their re-election at the Annual General Meeting in March 2017.

Directors' Fees (Audited)

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

Director	**Fees (Total Emoluments) 2016 £**	Fees (Total Emoluments) 2015 £
S P Trickett, Chairman	**34,500**	34,500
D J Jeffcoat, Chairman of the Audit Committee	**28,000**	28,000
J Le Blan	**24,500**	24,500
P M Hay-Plumb	**23,000**	23,000
R A Rae	**24,500**	24,500
	134,500	134,500

Directors are remunerated exclusively by fixed fees and do not receive bonuses, share options, pension contributions or other benefits apart from the reimbursement of allowable expenses.

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

	2016 £'000	2015 £'000	Absolute change £'000
Total Directors' remuneration	**135**	135	–
Total dividends in respect of that year	**28,443**	27,330	1,113
Total share buyback consideration	**6,282**	3,675	2,607

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests

The Directors who held office at any time during the year ended 31 December 2016 and their interests in the Shares of the Company as at that date and 1 January 2016 were as follows:

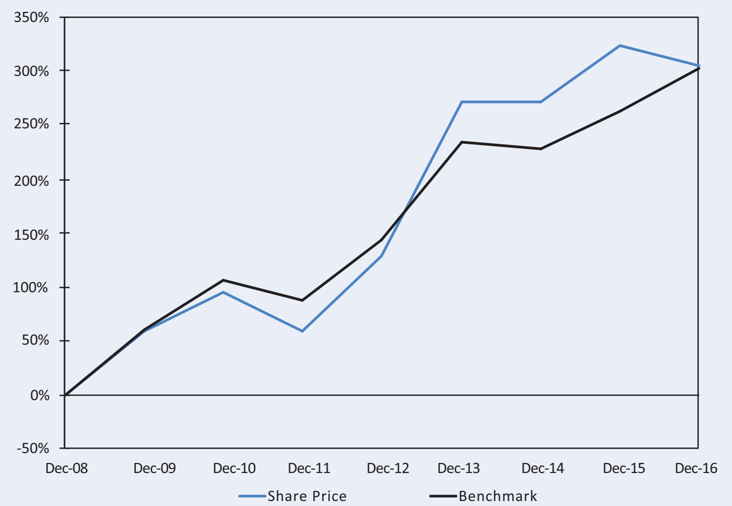
		Ordinary Shares	
Directors	Nature of Interest	**31 December 2016**	1 January 2016
S P Trickett, Chairman	Beneficial	6,860	5,270
J Le Blan	Beneficial	3,000	3,000
D J Jeffcoat	Beneficial	7,735	7,524
P M Hay-Plumb	Beneficial	2,100	1,600
R A Rae	Beneficial	4,000	4,000

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2016 and 27 January 2017. The Company has no share options or share schemes. Directors are not required to own shares in the Company.

Consideration of Shareholders' Views and Statement of Voting

An ordinary resolution to approve the remuneration report is put to members at each Annual General Meeting and Shareholders have the opportunity to express their views and raise any queries in respect of the remuneration policy at this meeting. To date, no Shareholders have commented in respect of the remuneration report or policy.

At the last Annual General Meeting held on 1 March 2016, Shareholders, on a show of hands, passed the resolutions to approve the Directors' Remuneration Report. Of the 37,956,451 proxy votes, 37,945,748 were cast in favour, 8,044 were cast against and 2,659 votes were withheld in respect of the resolution.



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

Share Price Performance

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 2016:

(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

27 January 2017

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 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;

(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; and

(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

27 January 2017

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 2016 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The Financial Statements comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Company

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the financial statements and the directors' statement on the longer term viability of the Company contained within the strategic report on page 5.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 5 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on page 5 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 20 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 5 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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 Title	Risk Description	How the scope of our audit responded to the risk	Key observations
Valuation and ownership of investments	The listed investments of the Company £1,253m (2015: £1,196m) make up 102.7% of total net assets £1,220m (2015: £1,192m). Please see Accounting Policy (b) and note 9. 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, as it applied to custody and attended the Audit Committee meeting at which the Northern Trust controls report was evaluated to assess the adequacy of the design and implementation of controls at the custodian.	No misstatements were identified which required reporting to those charged with governance in regards to the valuation of the portfolio. We did not identify any differences when agreeing the Company's investment portfolio to the confirmation received directly from the custodian and depositary.

Independent Auditor's Report

Risk Title	Risk Description	How the scope of our audit responded to the risk	Key observations
Revenue Recognition: Completeness of Dividend Income	Dividends from equity shares totalling £39m (2015: £38m) are accounted for on an 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. Please see Accounting Policy (c) and note 2. There is a risk that revenue is incomplete and consequently the revenue recognised in the financial statements is misstated.	We have performed the following procedures to address this risk: • reviewed the design and implementation of controls over revenue recognition including the Manager's monitoring of accuracy and completeness of revenue; • for a sample of listed investments, obtained ex-dividend dates and rates for dividends declared during the year and agreed the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • agreed a sample of dividend income receipts to bank statements.	No misstatements were identified which required reporting to those charged with governance in regards to the completeness of dividend income. Accounting policies in relation to revenue recognition were found to be in line with FRS 102, the SORP and industry peers.

Revenue allocation is no longer included in the revenue recognition key risk because the special dividend balance is not material in the current year. Otherwise, the risks described above are the same risks as identified in the prior year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 26.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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 £12.2m (2015: £11.9m), which is 1% (2015: 1%) of net assets. Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is a key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £244,000 (2015: £238,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. We note that the accounting and administration for the Company has been outsourced to Aberforth Partners LLP ("Aberforth") as administrator. As part of our audit we evaluated the design and implementation of relevant controls in place at Aberforth.

Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Independent Auditor's Report

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 part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

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

Respective responsibilities of directors and auditor

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

27 January 2017

(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 2016

	Note	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net gains on investments	9	**–**	**29,674**	**29,674**	–	87,132	87,132
Investment income	2	**39,027**	**5,229**	**44,256**	37,652	1,462	39,114
Other income	2	**46**	**–**	**46**	–	–	–
Investment management fee	3	**(3,111)**	**(5,185)**	**(8,296)**	(3,283)	(5,472)	(8,755)
Transaction costs	4	**–**	**(1,925)**	**(1,925)**	–	(3,890)	(3,890)
Other expenses	4	**(689)**	**–**	**(689)**	(778)	–	(778)
Net return before finance costs and tax		**35,273**	**27,793**	**63,066**	33,591	79,232	112,823
Finance costs	5	**(254)**	**(424)**	**(678)**	(242)	(403)	(645)
Return on ordinary activities before tax		**35,019**	**27,369**	**62,388**	33,349	78,829	112,178
Tax on ordinary activities	6	**(36)**	**–**	**(36)**	–	–	–
Return attributable to equity shareholders		**34,983**	**27,369**	**62,352**	33,349	78,829	112,178
Returns per Ordinary Share	8	**36.93p**	**28.89p**	**65.82p**	35.03p	82.80p	117.83p

The Board declared on 27 January 2017 a final dividend of 18.75p per Ordinary Share and a special dividend of 2.75p per Ordinary Share. The Board also declared on 27 July 2016 an interim dividend of 8.60p per Ordinary Share.

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 Comprehensive Income 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 2016

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2015		950	38	172,625	955,881	62,385	1,191,879
Return on ordinary activities after taxation		–	–	–	27,369	34,983	62,352
Equity dividends paid	7	–	–	–	–	(27,721)	(27,721)
Purchase of Ordinary Shares		(6)	6	(6,282)	–	–	(6,282)
Balance as at 31 December 2016		**944**	**44**	**166,343**	**983,250**	**69,647**	**1,220,228**

For the year ended 31 December 2015

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2014		953	35	176,300	877,052	53,000	1,107,340
Return on ordinary activities after taxation		–	–	–	78,829	33,349	112,178
Equity dividends paid	7	–	–	–	–	(23,964)	(23,964)
Purchase of Ordinary Shares		(3)	3	(3,675)	–	–	(3,675)
Balance as at 31 December 2015		950	38	172,625	955,881	62,385	1,191,879

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Investments at fair value through profit or loss	9	**1,253,247**	1,195,581
Current assets			
Debtors	10	**2,881**	2,725
Cash at bank		**241**	1,025
		3,122	3,750
Creditors (amounts falling due within one year)	11	**(36,141)**	(510)
Net current assets		**(33,019)**	3,240
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,220,228**	1,198,821
Creditors (amounts falling due after more than one year)	12	**–**	(6,942)
TOTAL NET ASSETS		**1,220,228**	1,191,879
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital	13	**944**	950
Capital redemption reserve	14	**44**	38
Special reserve	14	**166,343**	172,625
Capital reserve	14	**983,250**	955,881
Revenue reserve	14	**69,647**	62,385
TOTAL SHAREHOLDERS' FUNDS		**1,220,228**	1,191,879
NET ASSET VALUE PER ORDINARY SHARE	15	**1,292.57p**	1,254.30p

Approved and authorised for issue by the Board of Directors on 27 January 2017 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 2016

	Note	2016 £'000	2015 £'000
Operating activities			
Net revenue before finance costs and tax		**35,273**	33,591
Tax withheld from income		**–**	(59)
Tax recovered		**23**	–
Receipt of special dividends taken to capital	2	**5,229**	1,462
Investment management fee charged to capital	3	**(5,185)**	(5,472)
Increase in debtors		**(215)**	(432)
(Decrease)/increase in other creditors		**(40)**	47
Net cash inflow from operating activities		**35,085**	29,137
Investing activities			
Purchases of investments		**(231,112)**	(452,925)
Sales of investments		**201,136**	480,102
Cash (outflow)/inflow from investing activities		**(29,976)**	27,177
Financing activities			
Purchases of Ordinary Shares	13	**(6,282)**	(3,675)
Equity dividends paid	7	**(27,721)**	(23,964)
Interest and fees paid	16	**(640)**	(638)
Net drawdown/(repayment) of bank debt facilities (before any costs)	11, 12	**28,750**	(27,250)
Cash outflow from financing activities		**(5,893)**	(55,527)
Change in cash during the period		**(784)**	787
Cash at the start of the period		**1,025**	238
Cash at the end of the period		**241**	1,025

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 the preceding year, is set out below.

(a) Basis of accounting

The financial statements have been presented under Financial Reporting Standard 102 (FRS 102) and under the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 2014. The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of the Company's investments as described below. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates. The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is a not a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(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. 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, an amount equivalent to 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 related 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 dividends capital in nature; 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

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Income from investments						
UK dividends	**36,816**	**5,229**	**42,045**	35,739	1,462	37,201
Overseas dividends	**1,623**	**–**	**1,623**	1,374	–	1,374
Property income distributions	**588**	**–**	**588**	516	–	516
Convertible Bond income	**–**	**–**	**–**	23	–	23
	39,027	**5,229**	**44,256**	37,652	1,462	39,114
Other income						
Underwriting commission	**46**	**–**	**46**	–	–	–
Total income	**39,073**	**5,229**	**44,302**	37,652	1,462	39,114

During the year the Company received special dividends amounting to £7,084,000 (2015: £6,062,000), of which £5,229,000 (2015: £1,462,000) were considered as a return of capital by the investee company.

3 Investment Management Fee

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Investment management fee	**3,111**	**5,185**	**8,296**	3,283	5,472	8,755

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

4 Other Expenses

	2016 £'000	2015 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Depositary fee	**169**	179
Directors' fees (refer to Directors' Remuneration Report)	**135**	135
Secretarial services	**96**	95
Registrar fee	**72**	65
FCA and LSE listing fees	**59**	56
Custody and other bank charges	**51**	57
Auditor's fee – for audit services: recurring	**23**	23
– for non-audit services	**–**	–
AIC fees	**21**	21
Legal fees	**18**	31
Directors' and Officers' liability insurance	**11**	11
Other expenses	**34**	105
	689	778

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:

	2016 £'000	2015 £'000
Analysis of total purchases		
Purchase consideration before expenses	**229,487**	450,199
Commissions	**502**	949
Taxes	**1,064**	2,064
Total purchase expenses	**1,566**	3,013
Total purchase consideration	**231,053**	453,212
Analysis of total sales		
Sales consideration before expenses	**201,495**	480,543
Commissions	**(359)**	(877)
Total sale proceeds net of expenses	**201,136**	479,666
Total expenses incurred in acquiring or disposing of investments	**1,925**	3,890

5 Finance Costs

	Revenue £'000	**2016 Capital £'000**	**Total £'000**	Revenue £'000	2015 Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	**239**	**399**	**638**	227	378	605
Amortisation of bank debt facility costs	**15**	**25**	**40**	15	25	40
	254	**424**	**678**	242	403	645

6 Taxation

Analysis of tax charged on return on ordinary activities

	Revenue £'000	**2016 Capital £'000**	**Total £'000**	Revenue £'000	2015 Capital £'000	Total £'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:

	Revenue £'000	**2016 Capital £'000**	**Total £'000**	Revenue £'000	2015 Capital £'000	Total £'000
Total returns on ordinary activities before tax	**35,019**	**27,369**	**62,388**	33,349	78,829	112,178
Notional corporation tax at 20% (2015: 20.25%)	**7,004**	**5,474**	**12,478**	6,753	15,963	22,716
Adjusted for the effects of:						
Non-taxable UK dividend income	**(7,363)**	**(1,046)**	**(8,409)**	(6,988)	(296)	(7,284)
Non-taxable overseas dividend income	**(325)**	**–**	**(325)**	(232)	–	(232)
Expenses not deductible for tax purposes	**–**	**385**	**385**	–	788	788
Excess expenses for which no relief has been taken	**684**	**1,122**	**1,806**	467	1,189	1,656
Non-taxable capital gains	**–**	**(5,935)**	**(5,935)**	–	(17,644)	(17,644)
UK corporation tax charge for the year	**–**	**–**	**–**	–	–	–
Irrecoverable overseas taxation suffered	**36**	**–**	**36**	–	–	–
Total tax charge for the year	**36**	**–**	**36**	–	–	–

The Company has not recognised a potential asset for deferred tax of £21,294,000 (2015: £19,722,000) 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

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2015 of 17.85p (2014: 17.00p) paid on 4 March 2016	**16,962**	16,209
Special dividend for the year ended 31 December 2015 of 2.75p (2014: Nil) paid on 4 March 2016	**2,613**	–
Interim dividend for the year ended 31 December 2016 of 8.60p (2015: 8.15p) paid on 25 August 2016	**8,146**	7,755
	27,721	23,964
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2016 of 18.75p (2015: final dividend of 17.85p) payable on 3 March 2017	**17,696**	16,962
Special dividend for year ended 31 December 2016 of 2.75p (2015: 2.75p) payable on 3 March 2017	**2,595**	2,613
	20,291	19,575

The final dividend and the special dividend have not been included as liabilities in these financial statements.

8 Returns per Ordinary Share

	2016	2015
The returns per Ordinary Share are based on:		
Returns attributable to Ordinary Shareholders	**£62,352,000**	£112,178,000
Weighted average number of shares in issue during the year	**94,730,414**	95,200,792
Return per Ordinary Share	**65.82p**	117.83p

There are no dilutive or potentially dilutive shares in issue.

9 Investments

	2016 £'000	2015 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,195,581**	1,138,793
Opening fair value adjustment	**4,640**	(94,517)
Opening book cost	**1,200,221**	1,044,276
Purchases at cost	**229,487**	450,199
Sale proceeds	**(201,495)**	(480,543)
Realised gains on sales	**15,577**	186,289
Closing book cost	**1,243,790**	1,200,221
Closing fair value adjustment	**9,457**	(4,640)
Closing fair value	**1,253,247**	1,195,581

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

Gains/(losses) on investments:		
Realised gains on sales	**15,577**	186,289
Movement in fair value adjustment	**14,097**	(99,157)
Net gains on investments	**29,674**	87,132

9 Investments *(continued)*

In accordance with FRS 102 fair value measurements have been classified using the fair value hierarchy:

Level 1 - using unadjusted quoted prices for identical instruments in an active market;
Level 2 - using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and
Level 3 - using inputs that are unobservable (for which market data is unavailable).

Investments held as fair value through profit or loss

As at 31 December 2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,253,247**	**–**	**–**	**1,253,247**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,253,247**	**–**	**–**	**1,253,247**

As at 31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,195,581	–	–	1,195,581
Unlisted equities	–	–	–	–
Total financial asset investments	1,195,581	–	–	1,195,581

10 Debtors

	2016 £'000	2015 £'000
Investment income receivable	2,841	2,633
Taxation recoverable	–	59
Other debtors	40	33
	2,881	2,725

11 Creditors: Amounts falling due within one year

	2016 £'000	2015 £'000
Amounts due to brokers	**234**	293
Other creditors	**175**	217
Bank debt facility	**35,750**	–
Less: Unamortised costs	**(18)**	–
	36,141	510

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, at every month end, 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 2016, total borrowings represented 2.9% of total adjusted gross assets (as defined by Facility Agreement). The current facility is due to expire on 15 June 2017.

12 Creditors: Amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank debt facility	**–**	7,000
Less: Unamortised costs	**–**	(58)
	–	6,942

Notes to the Financial Statements

13 Share Capital

	2016		2015	
	No. of Shares	**£'000**	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**94,403,292**	**944**	95,023,792	950

During the year, the Company bought in and cancelled 620,500 shares (2015: 321,000) at a total cost of £6,282,000 (2015: £3,675,000). On 24 January 2017, the Company bought in and subsequently cancelled 25,000 shares at a total cost of £279,000.

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 2014	953	35	176,300	877,052	53,000	1,107,340
Net gains on sale of investments	–	–	–	186,289	–	186,289
Movement in fair value adjustment	–	–	–	(99,157)	–	(99,157)
Cost of investment transactions	–	–	–	(3,890)	–	(3,890)
Management fees charged to capital	–	–	–	(5,472)	–	(5,472)
Finance costs charged to capital	–	–	–	(403)	–	(403)
Special dividends taken to capital	–	–	–	1,462	–	1,462
Revenue return attributable to equity shareholders	–	–	–	–	33,349	33,349
Equity dividends paid	–	–	–	–	(23,964)	(23,964)
Purchase of Ordinary Shares	(3)	3	(3,675)	–	–	(3,675)
At 31 December 2015	**950**	**38**	**172,625**	**955,881**	**62,385**	**1,191,879**
Net gains on sale of investments	–	–	–	15,577	–	15,577
Movement in fair value adjustment	–	–	–	14,097	–	14,097
Cost of investment transactions	–	–	–	(1,925)	–	(1,925)
Management fees charged to capital	–	–	–	(5,185)	–	(5,185)
Finance costs charged to capital	–	–	–	(424)	–	(424)
Special dividends taken to capital	–	–	–	5,229	–	5,229
Revenue return attributable to equity shareholders	–	–	–	–	34,983	34,983
Equity dividends paid	–	–	–	–	(27,721)	(27,721)
Purchase of Ordinary Shares	(6)	6	(6,282)	–	–	(6,282)
At 31 December 2016	**944**	**44**	**166,343**	**983,250**	**69,647**	**1,220,228**

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:

	2016	2015
Net assets attributable	**£1,220,228,000**	£1,191,879,000
Ordinary Shares in issue at the end of year	**94,403,292**	95,023,792
Net asset value per Ordinary Share	**1,292.57p**	1,254.30p

16 Interest and Finance Costs Paid

	2016 £'000	2015 £'000
Interest/non-utilisation costs on bank debt facility	**(640)**	(638)

Notes to the Financial Statements

17 Analysis of changes in net debt

	Net debt at 1 January 2016 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2016 £'000
Cash at bank	**1,025**	**(784)**	**–**	**241**
Bank debt facility	**(7,000)**	**(28,750)**	**–**	**(35,750)**
Bank debt facility fee (see notes 11 and 12)	**58**	**–**	**(40)**	**18**
	(5,917)	**(29,534)**	**(40)**	**(35,491)**

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. The Company's investment portfolio is not directly exposed to interest rate risk.

(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.

(iv) *Market price risk*, is 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 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 0.01% as at 31 December 2016 (2015: 0.1%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities.

The Company has a bank debt facility of £125,000,000 of which £35,750,000 was drawn down as at 31 December 2016 (2015: debt facility of £125,000,000, of which £7,000,000 was drawn down). Further details of this facility can be found in Notes 11 and 12.

If LIBOR and the bank base rate had been 1% point higher at 31 December 2016, the impact on the profit or loss and therefore Shareholders' funds would have been negative £357,500 per annum (2015: negative £70,000). If LIBOR and the bank base rate had been 0.25% point lower at 31 December 2016, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £89,375 per annum (2015: positive £17,500). 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. The level of change is considered to be a reasonable illustration based on current market conditions.

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet 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 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 and the Depositary monitor the Company's risk by reviewing Northern Trust's

18 Financial instruments *(continued)*

(iii) Credit risk (continued)

credit ratings and their internal control report. Cash at bank is held with reputable banks with acceptable external credit ratings.

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

	2016 £'000	2015 £'000
Investment income receivable	**2,841**	2,633
Cash at bank	**241**	1,025
	3,082	3,658

(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 10% at 31 December 2016, the impact on the profit or loss and therefore Shareholders' funds would have been negative £125.3m (2015: negative £119.6m). If the investment portfolio valuation rose by 10% at 31 December 2016, the impact on the profit or loss and therefore Shareholders' funds would have been positive £125.3m (2015: positive £119.6m). 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. The level of change is considered to be a reasonable illustration based on historic stockmarket volatility.

As at 31 December 2016, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio consisted of investments, other than two investments that have been fair valued at £nil (see note 9), 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.

Maturity profile of the Company's financial liabilities

(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 2016						
Liabilities:						
Bank debt facility	**2**	**36**	**35,750**	**–**	**–**	**35,788**
Unamortised costs	**–**	**–**	**(18)**	**–**	**–**	**(18)**
Amounts due to brokers	**234**	**–**	**–**	**–**	**–**	**234**
Other creditors	**107**	**30**	**–**	**–**	**–**	**137**
Total liabilities	**343**	**66**	**35,732**	**–**	**–**	**36,141**

(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 2015						
Liabilities:						
Bank debt facility	40	–	–	7,000	–	7,040
Unamortised costs	–	–	–	(58)	–	(58)
Amounts due to brokers	293	–	–	–	–	293
Other creditors	105	37	35	–	–	177
Total liabilities	438	37	35	6,942	–	7,452

Notes to the Financial Statements

18 Financial instruments *(continued)*

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2016

(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	**–**	**187**	**35,997**	**–**	**–**	**36,184**
Amounts due to brokers	**–**	**234**	**–**	**–**	**–**	**234**
Other creditors	**–**	**136**	**–**	**–**	**–**	**136**
	–	**557**	**35,997**	**–**	**–**	**36,554**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2015

(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	–	134	288	7,558	–	7,980
Amounts due to brokers	–	293	–	–	–	293
Other creditors	–	142	35	–	–	177
	–	569	323	7,558	–	8,450

Capital Management Policies and Procedures

The Company's capital management objectives are to support the Company's objective and to ensure that the Company will be able to continue as a going concern.

This is achieved through the appropriate balance of equity capital and gearing. Further details can be found in the Strategic Report. The Company does not have any externally imposed capital requirements other than the covenant on its bank debt facility as set out in Note 11.

19 Related Party Transactions

Directors' fees and their shareholdings are detailed in the Directors' Remuneration Report on pages 30 and 31. There were no matters requiring disclosure under s412 of the Companies Act 2006.

20 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2016 (2015: 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.

21 Company information

Aberforth Smaller Companies Trust plc was incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is detailed on the back cover.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-sixth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 1 March 2017 at 6.00 p.m. for the following purposes:

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

1. That the Report and Financial Statements for the year ended 31 December 2016 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2016 be approved.
3. That the Directors' Remuneration Policy be approved.
4. That a special dividend of 2.75p per share and a final dividend of 18.75p per share be approved.
5. That Mr S P Trickett be re-elected as a Director.
6. That Mr D J Jeffcoat be re-elected as a Director.
7. That Mr R A Rae be re-elected as a Director.
8. That Mrs J Le Blan be re-elected as a Director.
9. That Mrs P M Hay-Plumb be re-elected as a Director.
10. That Deloitte LLP be re-appointed as Auditor.
11. That the Audit Committee be authorised to determine the remuneration of the Auditor for the year to 31 December 2017.
12. That the Company continues to manage its affairs as an investment trust (as defined by Section 1158 of the Corporation Tax Act 2010).

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

13. That pursuant to and in accordance with its Articles of Association, the Company be and 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 14,147,305 (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 2018 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2018, 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*
27 January 2017

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 6.00 p.m. on 27 February 2017 (or, if the Annual General Meeting is adjourned, at 6.00 p.m. on the day two days (excluding non-working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

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 1 March 2017 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 27 January 2017, the latest practicable date prior to publication of this document, the Company had 94,378,292 Ordinary Shares in issue with a total of 94,378,292 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.

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 2016, 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 requests to be placed on a mailing list should be addressed to the Company's Registrar:

Shareholder Solutions, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU. Tel: 0871 664 0300 (calls cost 12p per minute plus network extras, lines are open 9.00 am to 5.30 pm Monday to Friday).
Email: shareholder.services@capitaregistrars.com. Website: www.capitaassetservices.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 daily 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, Savings Schemes or Pension Plans.

Security Codes (Ordinary Shares)

SEDOL	Bloomberg	Reuters	GIIN	Legal Entity Identifier
0006655	ASL LN	ASL.L	U6SSZS.99999.SL.826	213800GZ9WC73A92Q326

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/NMPI Status

The Company's shares are intended for UK investors including retail investors, professionally advised private clients and institutional investors who are seeking exposure to smaller companies in the United Kingdom, and who understand and are willing to accept the risks of exposure to equities.

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 pooled investment (NMPI) products. The Company's Ordinary Shares are excluded from the FCA's restrictions that apply to NMPI products because they are shares in an investment trust.

Please note that past performance is not a guide to the future. Your investment may be at risk as the value of investments may go down as well as up and is not guaranteed. Therefore you may not get back the amount originally invested.

Individual Savings Accounts (ISA) Status

The Company's Ordinary Shares are eligible for inclusion in the "Stocks and Shares" component of an 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

Financial Calendar

Dividends in respect of the year ended 31 December 2016			
	Interim	**Special**	**Final**
Rate per Share:	8.60p	2.75p	18.75p
Ex Dividend:	4 August 2016	9 February 2017	9 February 2017
Record date:	5 August 2016	10 February 2017	10 February 2017
Pay date:	25 August 2016	3 March 2017	3 March 2017
Half Yearly Report	Published	late July	
Annual Report and Financial Statements	Published	late January	
Annual General Meeting		1 March 2017	
Publication of Net Asset Values		Daily (via the Managers' website)	

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed Aberforth Partners as its alternative investment fund manager (AIFM). In accordance with the AIFMD, 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 2016 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

	2016		2015	
Leverage Exposure (refer to the Glossary)	**Commitment Method**	**Gross Method**	Commitment Method	Gross Method
Maximum limit	**2.00:1**	**2.00:1**	2.00:1	2.00:1
Actual	**1.03:1**	**1.03:1**	1.00:1	1.00:1

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

The Common Reporting Standard

As of 1 January 2016 a new piece of tax legislation, The OECD Common Reporting Standard for Automatic Exchange of Financial Account information ('The Common Reporting Standard'), came into effect.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly Aberforth Smaller Companies Trust plc will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

All new shareholders, excluding those whose shares are held in CREST, who came on to the share register with effect from 1 January 2016 will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders https://www.gov.uk/government/publications/exchange-of-information-account-holders.

Beware of Share Fraud

Shareholders may receive unsolicited phone calls or correspondence concerning investment matters which imply a connection to the Company. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares. Shareholders may also be advised that there is an imminent offer for the Company, and the caller may offer to buy shares at significantly above the market price if an administration fee is paid. This is known as 'boiler room fraud'.

You can find more information about investment scams at the Financial Conduct Authority (FCA) website www.fca.org.uk/scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

Shareholder Information

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 the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%. Active Share is addressed in "*How Active Is Your Fund Manager?"* (Antti Petajisto and Martijn Cremers, Yale School of Management, 2009).

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 stockmarkets 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.

Corporate Information

Investment Managers and Secretaries

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

Registered Office and Company Number

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

Registrar

Capita Asset Services
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
BR3 4TU

Shareholder enquiries:
Tel: 0871 664 0300
(Calls cost 12p per minute plus network extras)
Email: shareholder.services@capitaregistrars.com
www.capitaassetservices.com

Share Portal:
www.capitashareportal.com/forms/Welcome.aspx

Solicitors and Sponsors

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

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

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Depositary

National Westminster Bank plc
Trustee & Depositary Services
The Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH