Aberforth Smaller Companies Trust plc

Annual Report and Financial Statements

31 December 2018

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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 2018

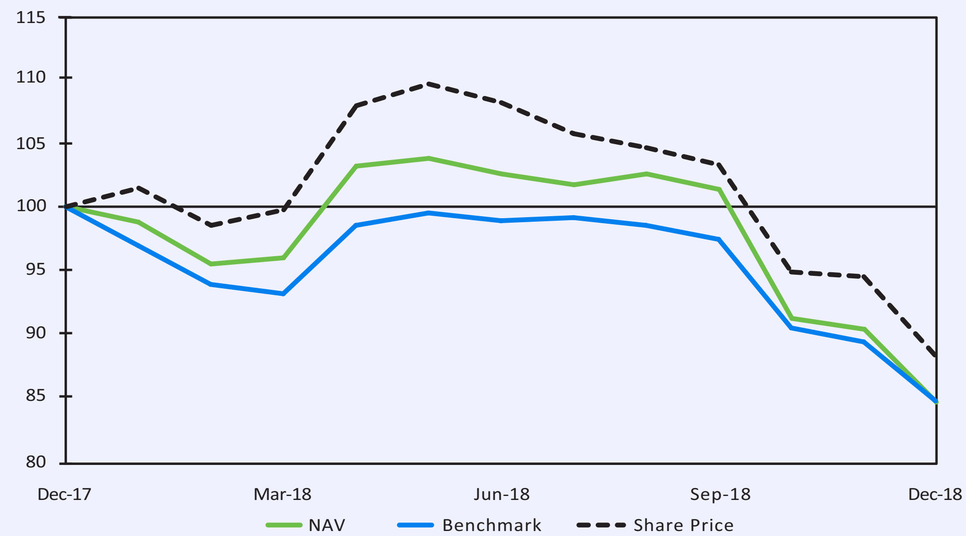
	%
Net Asset Value per Ordinary Share[2]	**-15.4**
Numis Smaller Companies Index (excluding Investment Companies)	**-15.3**
Ordinary Share Price[2]	**-11.8**

Financial Highlights

	31 December 2018	31 December 2017	% Change
Shareholders' Funds[1]	**£1,154m**	£1,436m	-19.6
Market Capitalisation[2]	**£1,031m**	£1,233m	-16.4
Actual Gearing employed[1]	**1.3%**	0.3%	n/a
Ordinary Share net asset value[1]	**1,273.72p**	1,543.72p	-17.5
Ordinary Share price[2]	**1,138.00p**	1,326.00p	-14.2
Ordinary Share discount[2]	**10.7%**	14.1%	n/a
Revenue Return per Ordinary Share[1]	**45.30p**	41.59p	8.9
Dividends per Ordinary Share[1]	**38.00p**	35.50p	7.0
Return attributable to equity shareholders per Ordinary Share[1]	**-235.92p**	279.32p	n/a
Ongoing Charges[2]	**0.79%**	0.76%	n/a
Portfolio Turnover[2]	**26.0%**	21.9%	n/a

[1] UK GAAP Measure [2] Alternative Performance Measure (refer to glossary on page 58)

Absolute Performance over past year
(figures are total returns and have been rebased to 100 at 31 December 2017)



Chairman's Statement

Review of 2018 performance

Around the world, 2018 proved to be a year of negative returns for the vast majority of stockmarket indices. As the year progressed, trade wars, politics and slowing economic activity all weighed heavily on markets. Perhaps unsurprisingly, with Brexit as its companion, small UK quoted companies did not escape.

The Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)), the Company's benchmark, gave a total return of -15.3%. The Company's net asset value total return was -15.4%, which reflects the return attributable to equity Shareholders of -235.92p (2017: 279.32p), together with the effect of dividends received by them and re-invested. The share price generated a total return of -11.8%.

By comparison, the FTSE 100 Index's total return was -8.7% and that of the FTSE All-Share Index, which is heavily weighted towards large companies, was -9.5%.

The Managers' Report provides more detail on 2018's performance.

Board changes

I have informed my colleagues of my decision not to stand for re-election at the forthcoming Annual General Meeting. Initially appointed as a Director of the Company on 30 January 2013, and subsequently Chairman on 17 October 2014, it has been my privilege to serve the Shareholders of the Company. My Board colleagues are a great team guiding the direction of the Company and I have enjoyed working with them throughout this time. My replacement will further strengthen the Board. I would like also to record my admiration for the partners and staff of Aberforth. Their focus and depth of understanding is admirable in a world where so often asset gathering is prioritised over serving the needs of customers. This is never an issue with Aberforth and I am confident this will remain the case.

We are delighted to appoint Richard Davidson as a Director with effect from 26 January 2019. It is intended that he will become Chairman following the closure of the Annual General Meeting on 28 February 2019. Richard brings a wealth of knowledge of the investment world and is looking forward to working with both his new Board colleagues and the Managers. An independent board of directors is undoubtedly one of the principal advantages and differentiators of investment trusts in the broader UK savings industry.

Dividends

The Board remains committed to a progressive dividend policy. In this context, the Board is pleased to propose a final ordinary dividend of 20.75p. Total ordinary dividends of 30.25p for 2018 represent a 5.0% increment when compared with 2017.

Since 2015, alongside the ordinary dividend declared, the Company has also paid a special dividend, thereby ensuring that the all-important minimum retention test imposed by HMRC is not breached. The Board adopted such a strategy to avoid the pitfalls of allowing non-recurring revenue streams to become embedded into the progressive dividend policy, a particular risk given the greater prevalence of special dividends and non-recurring distributions since the financial crisis.

In 2018, the Company was once again a beneficiary of special dividends and the Board has declared a special dividend of 7.75p per share alongside the total ordinary dividend of 30.25p to ensure the retention test is met.

After adjusting for both the final ordinary and special dividends, the Company's revenue reserves will be 68.8p per share, circa 2.3x the ordinary dividend. Strengthened revenue reserves, and prudent management of the non-recurring revenue streams of recent years, leave the Board optimistic about the sustainability of the progressive dividend policy. As highlighted in last year's Chairman's Statement, the ambition behind this strategy, and perhaps its acid test, will be for the Board to deliver dividend growth through the next downturn. Dividend growth from small UK quoted companies has been exceptionally strong since the global financial crisis. There was further progress in 2018, though the overall experience was more mixed than in previous years.

I would reiterate my comments from previous years that the base level for the Company's progressive dividend policy is the ordinary dividend, i.e. 30.25p which excludes the special dividend.

Share buy back

At the Annual General Meeting in March 2018, the authority to buy back up to 14.99% of the Company's Ordinary Shares was approved. During the year, 2,418,826 Ordinary Shares (2.6% of the issued share capital) were bought in at a total cost of £32.8m. 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-back authority at the Annual General Meeting on 28 February 2019.

Chairman's Statement

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 28 year history. The £125m facility with The Royal Bank of Scotland International has a term expiring in June 2020. As has been the case in the past, the facility term dovetails with the three-yearly continuation vote cycle. The facility continues to provide the Company with access to liquidity for investment purposes and to fund share buy-backs 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. During the year, the level of gearing ranged from nil to 2.8%, with an average of 0.8%, and at the year end gearing stood at 1.3% of Total Shareholders' Funds.

Outlook

Throughout my tenure as Chairman, politics has cast a somewhat dark shadow. Two referendums, two general elections and the rise of populism globally have contributed to a challenging investment environment. Brexit negotiations are currently centre stage. The difficulties in reconciling a narrow referendum outcome, which would seem to be at odds with the majority in the Houses of Parliament, should not be underestimated, although it is perhaps the transition from quantitative easing to quantitative tightening that will have more lasting impact on the investment world.

Amidst all this uncertainty, the asset class is getting cheaper! In October 2014, when I became Chairman, the NSCI (XIC) sold on a historic price/earnings multiple of 14.1x and yield of 2.5%. As at 1 January 2019, it is selling on a 10.9x p/e multiple and yielding 3.6%. As value investors, the Managers, unsurprisingly, oversee a portfolio that is selling at a lower p/e multiple of 9.6x and a yield of 3.7%.

The coming year will undoubtedly bring an array of surprises. However, after a tough 2018, the Board looks forward with a degree of optimism, which is based upon the attractive valuations and the consistency of approach and professionalism of the Managers.

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

Paul Trickett
Chairman
25 January 2019
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 2019 (the date of the last annual index rebalancing), the index included 359 companies, with an aggregate market capitalisation of £140 billion. Its upper market capitalisation limit was £1.3 billion, although this limit changes owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities 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. Neither does the Company invest in securities issued by other UK listed closed-ended investment funds except where they are eligible to be included in the NSCI (XIC). In any event, the Company invests no more than 15% of total assets in other listed closed-ended investment funds.

The Managers aim to keep the Company near fully invested in equities at all times and there is normally 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 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 are usually 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 typically 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 share of the portfolio.

Dividend Policy

The Board confirms its commitment to a policy of progressive dividends. In addition, in order to qualify as an investment trust, the Company must not retain more than 15% of its income from any financial year. The Company pays an interim dividend in August each year based on the forecast net revenue position for the current financial year. A final dividend, subject to shareholder approval, is then paid in March each year based on the actual net income for the financial year just ended and the future earnings forecasts.

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 risks inherent in 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 owing to the nature of its investment policy and strategy. The performance of the investment portfolio typically differs from the performance of the benchmark and is influenced by market related risks including market price and liquidity (refer to Note 19 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. The Board and Managers closely monitor economic and political developments and, in particular, are mindful of the continuing uncertainty following the UK referendum result to leave the EU and other geopolitical issues referred to in the Managers' Report.*

(ii) Share price discount – investment trust shares tend to trade at discounts to their underlying net asset values but a significant share price discount, or related volatility, could reduce shareholder returns and confidence. *The Board and the Managers monitor the discount on a daily basis both in absolute terms and relative to ASCoT's peers. In this context, the Board intends to continue to use the buy-back authority as described in the Directors' Report.*

(iii) Gearing risk – in rising markets, gearing enhances returns; however, in falling markets the gearing effect adversely affects 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*.

Viability Statement

The Directors have assessed the viability of the Company over the five years to December 2023, 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 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 shares 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 2023 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 (also referred to as Alternative Performance Measures): 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. A glossary of these Alternative Performance Measures can be found on page 58.

Historical Total Returns

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2018	**-15.4**	**-15.3**	**-11.8**
1 year to 31 December 2017	22.1	19.5	22.6
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

Periods to 31 December 2018	Annualised Returns (%) NAV	Index	Share Price	Cumulative Returns (%) NAV	Index	Share Price
2 years from 31 December 2016	1.6	0.6	4.0	3.2	1.2	8.2
3 years from 31 December 2015	3.0	4.0	1.2	9.2	12.4	3.6
4 years from 31 December 2014	4.7	5.6	4.2	20.4	24.3	18.0
5 years from 31 December 2013	3.6	4.1	3.4	19.6	22.0	18.1
6 years from 31 December 2012	10.5	8.9	11.4	82.2	67.0	91.3
7 years from 31 December 2011	13.3	11.7	15.6	140.2	117.0	175.2
8 years from 31 December 2010	9.6	8.9	10.6	107.9	97.2	124.4
9 years from 31 December 2009	11.4	10.9	11.9	163.2	153.4	175.5
10 years from 31 December 2008	14.3	15.1	15.9	280.0	307.3	338.8
15 years from 31 December 2003	10.0	10.3	10.3	317.3	336.2	335.3
20 years from 31 December 1998	12.0	9.9	12.8	862.8	557.8	1,007.0
28.1 years from inception on 10 December 1990	12.7	10.4	12.4	2,772.3	1,498.7	2,525.7

Ten Year Summary

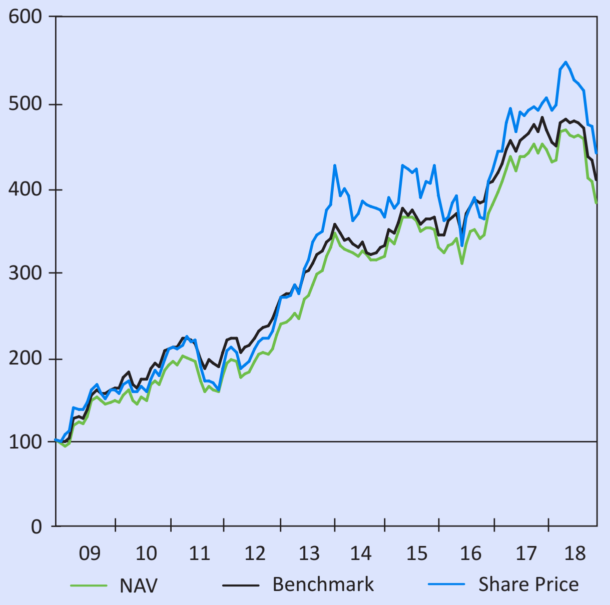
As at 31 December	Net asset Value per Share p	Share Price p	Discount %	Revenue per Ordinary Share p	Dividends per Ordinary Share net p	Ongoing Charges %	Gearing %
2018	**1,273.7**	**1,138.00**	**10.7**	**45.30**	**38.00**	**0.79**	**1.3**
2017	1,543.7	1,326.00	14.1	41.59	35.50	0.76	0.3
2016	1,292.6	1,109.00	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

Performance Indicators

Ten Year Investment Summary

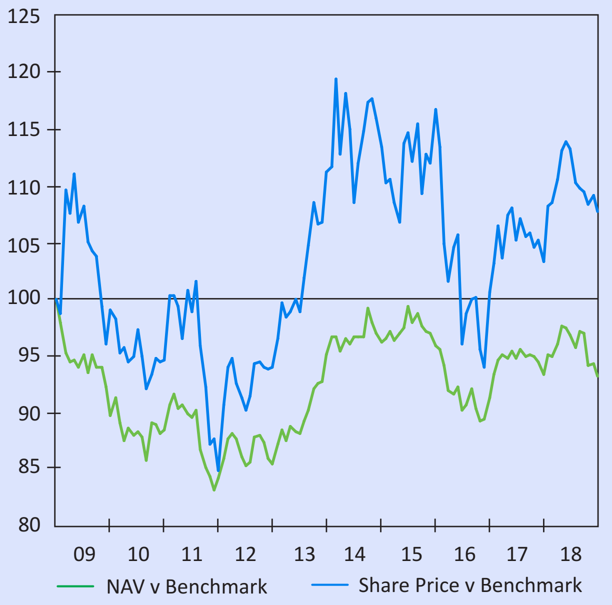
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2008)



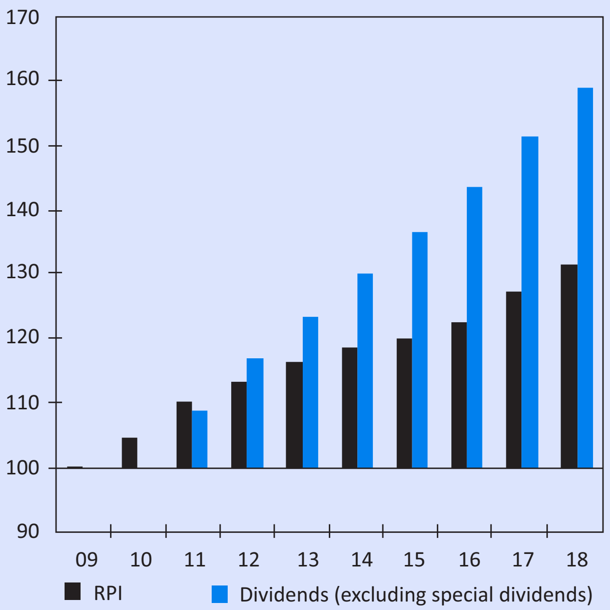
Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2008)



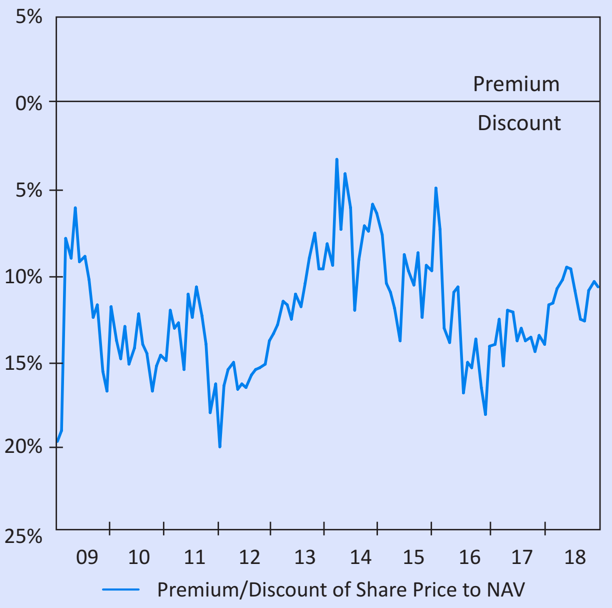
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 2008)



Premium/Discount

(being the difference between Share Price and NAV)



Managers' Report

Introduction

In common with most other equity markets, UK stocks struggled in 2018. The FTSE All-Share, which is dominated by large companies, produced a total return of -9.5%. Small companies were weaker still, with a total return from the NSCI (XIC) of -15.3%. Despite the good start to the year described in the interim report, ASCoT generated a net asset value total return of -15.4%. The principal influences on this performance are described in the Investment performance section of this report.

These weak returns render 2018 the first bad year for UK equities since 2011. Nevertheless, total returns from the NSCI (XIC) and the FTSE All-Share since 2011 have been 117% and 66% respectively. After so strong a run, the chances of a setback inevitably climb, though probability offers little comfort when prices start to fall. Back in 2011, the Eurozone crisis was in full swing. Today, the obvious equivalent is the UK's impending exit from the European Union. Brexit has indeed affected the performance of small caps in general and the portfolio, but, as the year progressed, it became clear that the UK no longer has a monopoly on gloom. Macro-economic and populist challenges have arisen around the globe to undermine 2017's synchronised global recovery and equity valuations.

Europe, whose growth surprised so positively in 2017, faltered in 2018. The uncertainties of Brexit inevitably cast a shadow and the European Central Bank's move to taper its quantitative easing programme adds further uncertainty. Meanwhile, Italy's populist government has challenged the European Commission with its controversial budget, a confrontation complicated by higher government spending in France as Emmanuel Macron backtracked on fuel duty increases. Further afield, China has also seen a slowdown in its rate of growth, which at this stage seems as much a function of internal policy to address lending excesses as a result of trade wars with the US.

Donald Trump's "America First" policies have helped to keep the US economy moving ahead at an enviable rate but have also represented a challenge to the era of globalisation, which has favoured capital over labour to the advantage of financial markets. One manifestation has been the strong dollar, which is itself problematic for overseas businesses that have taken on dollar borrowings. Another important influence on the dollar has been the tightening of monetary policy by the Federal Reserve. Jay Powell, the recently appointed chairman, has thus far proved resolute in balancing the stimulus of the president's inflationary fiscal policies with quantitative tightening and higher interest rates. In response, US government bonds repriced, with the ten year yield rising from 2.4% at the start to the year through 3.2% in November. However, financial markets grew increasingly alarmed about the pace of tightening and the ten year yield dropped back to 2.7% by the year end. Through all this, the US yield curve – the difference between the yields of short and long dated bonds – flattened and has come close to inversion. An inverted yield curve, where long dated yields are below short dated yields, has historically proved a good, though not flawless, indicator of recession. Such concerns explain much of the weakness of global equity markets as 2018 came to an end – after a decade of very low interest rates and quantitative easing, normalisation of monetary policy in the world's largest economy was never going to be straightforward.

While influenced by these global issues, the UK financial markets remain a case apart and, with Brexit unresolved, scepticism about the domestic economy abounds. While catastrophe did not follow the referendum, it is clear that the leave vote has imposed an opportunity cost on the UK economy as it has dropped down the G7 growth rankings. Sterling and asset valuations have taken the strain, but the risk of a hard Brexit and an economic downturn remains. This risk disproportionately affects small UK quoted companies, which are more reliant on the domestic economy than their larger peers. However, with valuations already depressed, the opposite also holds true: all else being equal, anything short of a departure without a deal should bode well for the asset class.

Brexit survey

To gain a different perspective on the ubiquitous Brexit debate, in September the Managers undertook a survey of the 93 companies held within Aberforth funds. The questions focused on the companies' reactions to the referendum and on potential future actions. The response rate was 94%, which represents a useful cross-section of the small cap universe.

The overall impression was of frustration with the politics, the Brexit process and lingering uncertainty. The lengthiest and most detailed responses tended to come from businesses oriented towards the domestic economy. This is unsurprising, though to an extent reassuring, since it is these companies that have been most affected by the decision to leave the EU. The survey identified three principal areas of concern.

- Employment: executives are worried about the availability of relatively cheap and skilful labour from the EU against the background of the rising national living wage.
- Sterling: there is an overwhelming assumption that sterling would weaken further in the event of a hard Brexit, which would be to the disadvantage of domestic businesses but to the benefit of overseas-oriented businesses.
- Supply chain: there is concern that a deal-less Brexit would complicate the movement of goods into and out of the UK at least in the short term. Contingency planning for several companies involves pre-emptive inventory building ahead of March.

The results of the survey need to be considered in the context of the continuing uncertainty about the Brexit process and outcome: company executives are having to operate with limited information and little guidance to date from

Managers' Report

government. Nevertheless, the survey did suggest that the companies are not complacent: money and time are being spent on preparations. This cannot, however, guarantee that the businesses will emerge unscathed, despite the commendable resilience displayed since the referendum in 2016.

Investment performance

To recap, the NSCI (XIC)'s total return in 2018 was -15.3%, while ASCoT's NAV total return was -15.4%. Clearly, the most significant influence on ASCoT's performance was the weak returns from equities in general. Beginning with the table below, the following section analyses the other important influences in 2018.

For the 12 months ended 31 December 2018	Basis points
Stock selection	-46
Sector selection	89
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 22 basis points)	**43**
Movement in mid to bid price spread	2
Cash/gearing	-9
Purchase of ordinary shares	30
Management fee	-70
Other expenses	-5
Total attribution based on bid prices	**-9**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = -15.44%; Benchmark Index = -15.35%; difference is -0.09% being -9 basis points).

Sectors

The overhang of Brexit means that sector exposure has been an unusually large influence on the performance of ASCoT and of small caps in general since the referendum. The following comments on sectors are not made with reference to the NSCI (XIC)'s forty or so industrial classifications that determine the "Sector selection" data in the table above. Rather, sector exposure here refers to two distinct groups of companies: those that derive a majority of their sales from the domestic economy and those more dependent on overseas markets. The fortunes of these two groups have diverged substantially since the referendum, with the domestics under-performing the overseas earners by 24%. This reflects different profit dynamics under the influence of sterling weakness. The overseas companies have seen their sterling profits rise as income streams earned in euros or dollars have been translated into pounds. In contrast, the domestics have had to deal with insipid consumer spending and a hit to gross margins as foreign currency input costs have risen in sterling terms.

The table below sets out the geographical exposures of the portfolio and of the benchmark. These are calculated by reference to the sales of the underlying companies. In comparison with the NSCI (XIC), ASCoT was well positioned for what followed the referendum and relative performance benefited accordingly. However, the extent of the under-performance by the domestics is such that their valuations have become increasingly attractive. Consistent with the Managers' value investment discipline and as part of the usual bottom-up stock selection process, this resulted in capital within ASCoT's portfolio gradually moving from overseas to domestic businesses. It is worth noting, though, that the pervasive market weakness of the fourth quarter has levelled the playing field somewhat: there are opportunities in all parts of the stockmarket.

	ASCoT		**NSCI (XIC)**	
	Overseas	*Domestic*	*Overseas*	*Domestic*
End 2018	38%	62%	42%	58%
End 2016	47%	53%	41%	59%

Style & Size

Following a bad year for value investment in 2017 – the ninth worst since 1955 – the interim report noted the improved performance of the style through the second quarter and suggested that this might have been assisted by the sharp rise in US government bond yields. The second half of the year saw the market question the lofty valuations of many of the US's high growth internet businesses, but the relapse in bond yields into the end of the year undermined the rotation towards value. In addition, style dynamics within the NSCI (XIC) were influenced by the specific issue of Brexit: today's typical small cap value stock is sensitive to the economic cycle and so is likely to be particularly affected by the uncertain outlook. Data from the London Business School suggest that, despite its strong start to the year, value modestly lagged growth over 2018 as a whole. Given the Managers' value investment philosophy, this represented a hindrance to ASCoT's returns.

Turning to size, this was an important factor within the UK stockmarket. Against the backdrop of heightened risk-aversion, particularly through the latter part of the year, small companies under-performed large in 2018, with a total return of -15.3% from the NSCI (XIC) and -9.5% from the FTSE All-Share. However, within the NSCI (XIC) itself, size was not a significant influence on performance. The NSCI (XIC) represents the bottom tenth of the total value of the UK stockmarket. This means that its largest constituent has a market capitalisation of £1.3 billion and that 59% of its total value is made up of an overlap with the FTSE 250. A useful gauge of size effects within the NSCI (XIC) is to compare the performances of the FTSE 250 and FTSE SmallCap. In 2018, the latter fell by slightly less than the former. Therefore, since ASCoT retains its bias towards the more attractively valued "smaller small" companies, the size factor would have been a modest boost to performance in 2018.

Balance sheets

To generalise, the boards of companies within the NSCI (XIC) reacted to the financial crisis by conserving cash to strengthen their balance sheets. This was an understandable reaction to what they had endured in 2008 and 2009. In more recent years, there have been signs of a return to more normal levels of confidence, with unusually strong balance sheets put to work in the form of greater investment, acquisitions or returns of cash to shareholders. Assuming that investment propositions have been well judged, the Managers welcome this development, but there is the risk that balance sheets become over-stretched as happened in the years before the crisis. This would not yet appear to be the case, as shown in the table below, which sets out the distribution of the portfolio and of the NSCI (XIC) by balance sheet strength of the underlying companies.

Based on 2019 estimates	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Loss makers
ASCoT	21%	52%	27%	0%
NSCI (XIC)	27%	38%	28%	7%

As 2018 progressed, there were indications that banks have become choosier in their lending and that credit conditions are becoming less easy, with the retail and construction sectors appearing to be under particular pressure. It is too early to determine whether this is simply a consequence of Carillion's failure or if the lenders are girding themselves in the run-up to the departure from the EU.

Income

Dividend growth has been one of the most positive features of the small cap universe in recent years. Between 2012 and 2017, annual growth from the NSCI (XIC) averaged 9%, adjusted for inflation, well above the 62 year average rate of 3%. History dictates that a slowdown is inevitable and there are indications that it may have started in 2018. It is tempting once again to identify Brexit concerns as an influence. However, such a theme is not explicit in companies' results statements and the deceleration would appear to be a function of one-off cuts and fewer special dividends. Clearly, though, this might change in the event of a hard Brexit.

Turning to the portfolio's dividend experience, the table below splits holdings into categories that are determined by each company's most recent dividend announcement, excluding specials. Notwithstanding the previous comments about small cap dividends in general, the message from the table is similar to that of recent years: a handful of dividend cutters, the persistence of several nil payers and a bias to companies that most recently increased their dividends. As a reminder, the "Other" category includes companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year. While the outlook for ASCoT's dividends will be substantially influenced by the fortunes of smaller companies in general, the balance sheet picture described above and average portfolio dividend cover of 2.9x continue to offer support.

Down	Nil payers	No change	Increase	Other
7	18	24	28	4

Corporate activity

Against a backdrop of buoyant M&A activity around the world, Brexit concerns contributed to a quieter period for corporate activity within the NSCI (XIC). Only 14 bids for NSCI (XIC) constituents were completed or were outstanding at the end of the year, down from 17 in 2017 and from 33 two years before that. Of the 14, ASCoT held three, one of which was announced towards the end of 2017. Overall, M&A dragged on ASCoT's relative returns in 2018.

Managers' Report

Despite some ambitious advisers and what is reputedly a full pipeline of potential deals, the frequency of IPOs also declined in 2018, with 13 completed against 21 the previous year. ASCoT did not participate in any of the 13: in the opinion of the Managers, the valuations of the companies did not offer sufficient compensation for the information advantage enjoyed by the sellers.

Turnover

Portfolio turnover was 26% in 2018. This compares with 22% in 2017 and with a long term average of 35%. As usual, an element of the 26% was driven by situations in which ASCoT is effectively a forced seller, such as when a holding is taken over or is deemed too large to remain in the NSCI (XIC). Excluding such situations, the underlying rate of turnover was low at 14% in 2018, which is below the long term average on this basis of 23%. Underlying turnover tends to be influenced by investment performance: if the stockmarket chooses not to re-rate ASCoT's holdings, there is not the scope to rotate capital into cheaper companies and so turnover is low. Conversely, better relative performance tends to be associated with a pick-up in turnover.

Active share

Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a better chance of performing differently from the index, for better or worse. The Managers target a ratio of at least 70% for ASCoT in relation to the NSCI (XIC) and at the start of January 2019 the ratio was 77%. Active share can be flattered by holding companies that are not constituents of the comparable index. The Managers believe that it is important for investors to know in what part of the stockmarket ASCoT is invested and accordingly there are limited circumstances in which the portfolio can hold companies that are not in the NSCI (XIC). At the start of January 2019, all of the portfolio value was represented by constituents of the index.

Valuations

There is no shortage of data to suggest that sterling assets are particularly unloved at present. Anxiety has intensified as Brexit enters, presumably, its final phase. The bias of small companies to the domestic economy renders them particularly vulnerable to a badly handled departure. As the table below shows, this has been reflected in a sharp de-rating of the asset class, with the historical PEs of both the NSCI (XIC) and the portfolio dropping sharply through 2018. At 10.9x, the PE of the index is 19% below its average since 1990. The only two occasions in which the multiple has been lower for a sustained period of time have coincided with recession, specifically in the early 1990s and during the financial crisis.

	31 December 2018		31 December 2017	
Portfolio Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**81**	**359**	86	350
Weighted average market capitalisation	**£524m**	**£732m**	£712m	£878m
Price earnings (PE) ratio (historic)	**9.6x**	**10.9x**	12.5x	14.3x
Dividend yield (historic)	**3.7%**	**3.6%**	2.9%	2.8%
Dividend cover	**2.9x**	**2.6x**	2.6x	2.5x

The table below provides forward-looking valuation data using the Managers' favoured metric of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Ratios are shown for the portfolio, the tracked universe and certain subdivisions of the tracked universe. The tracked universe refers to the 284 companies that the Managers follow closely and that account for 97% by value of the entire NSCI (XIC).

EV/EBITA	**2018**	**2019**	**2020**
ASCoT	9.7x	8.3x	7.5x
Tracked universe (284 stocks)	10.5x	9.6x	8.5x
- 49 growth stocks	16.5x	14.7x	13.2x
- 235 other stocks	9.7x	8.8x	7.9x

The table demonstrates the valuation advantage enjoyed by the portfolio, which has been a constant feature of ASCoT's portfolio over its 28 years and is a function of the Managers' value investment philosophy. Underlying that valuation advantage are three particular features of today's universe of small UK quoted companies.

Managers' Report

- Despite pressure on the valuations of some of the world's technology titans in recent months, the table shows that growth stocks remain significantly more expensive than value stocks. In the UK context, that premium would be challenged by a period of more buoyant economic conditions and by progress towards a normalisation of monetary policy.
- There remains a distinct premium for size and, by extension, liquidity. The average 2019 EV/EBITA ratio of "larger small" companies (i.e. those with market capitalisations of at least £500m) is 27% higher than that of the "smaller smalls", despite no obvious difference in the underlying business prospects for the two groups.
- Using average 2019 EV/EBITA ratios, overseas facing companies enjoy a 12% premium to the domestics, which are perceived as potential Brexit victims. The premium is not vast, but the profit dynamics of the two groups have diverged as sterling weakness has taken the profits of many overseas earners to all-time highs but has eroded margins of the domestic players.

Outlook & Conclusion

The uncertainties surrounding the UK's departure from the EU have clearly been a fundamental influence on the UK stockmarket over the past year and, with the matter yet to be resolved, it continues to affect the valuation opportunities described above. It is tempting, as many have done, to portray investment in small UK quoted companies as binary at the current time.

- In the event of a hard Brexit, the economy would be vulnerable to a further slowdown and, given presently low rates of growth, recession. Renewed monetary stimulus would be likely. It is possible that the risks of a downturn and further uncertainty would prove not to have been fully reflected in share prices and in sterling. Weaker sterling would insulate the overseas earners, but businesses reliant on the domestic economy would come under renewed pressure.
- A softer Brexit, along the lines of the prime minister's withdrawal agreement, would avoid a near term downturn and, through the removal of uncertainty, might see an acceleration in the economy as businesses increase investment. Sterling would plausibly recover at least some of its losses since the referendum and the outflow from UK assets would start to reverse. Some of the current headwinds facing the profits of domestic businesses would presumably turn to tailwinds, with the opposite being the case for the overseas earners.

However, this stark portrayal of ASCoT's investment proposition feels rather short term. On the one side, it ignores the likelihood that political uncertainty will continue to beset the UK even if an immediate hard Brexit is avoided. On the other, it implies something close to Doomsday for small companies, whereas the events of ten years ago in the financial crisis proved their resilience. Good management and the support of the equity markets in the refinancing of 2009 allowed businesses to recover and grow. From its previous peak in May 2007 to the end of 2018, the NSCI (XIC) doubled in total return terms. The Managers therefore suspect that, after the inevitable short term adjustment to a hard Brexit, a degree of clarity would return to allow small companies to resume their well established habit of creating wealth for their shareholders.

The binary view also risks ignoring economic and financial developments in the rest of the world, which, as the events of the fourth quarter demonstrate, will affect perceptions of and future returns from UK equities. Notably, there is potential for a normalisation of US monetary policy to upset the established investment strategies since the financial crisis. This is not to argue that the valuations of growth stocks cannot move even higher or that the path to a normal cost of money will be short and without setbacks. However, to judge by the portfolio profiles of investment and unit trusts investing in small UK quoted companies, the desire to own growth stocks is extreme, while value investing remains very much out of fashion.

Finally, the binary characterisation is essentially the consensus view. This in itself does not mean that the view is wrong, but history suggests that a strong consensus can often lead to opportunities within financial markets, such as in 1981 when 364 economists penned a poorly timed letter criticising government policy. The strength of the consensus against the majority of small UK quoted companies is evident in their unusually depressed valuations. The Managers believe that the differentiation of ASCoT's well diversified portfolio keeps it relevant and that, with sentiment towards UK equities, small companies and value investment so negative, it is well placed to generate good returns in the future.

Aberforth Partners LLP
Managers
25 January 2019

Thirty Largest Investments

As at 31 December 2018

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	Urban&Civic	35,450	3.1	Property – investment & development
2	FirstGroup	34,855	3.0	Bus & rail operator
3	Brewin Dolphin Holdings	33,826	2.9	Private client fund manager
4	Vitec Group	32,385	2.8	Photographic & broadcast accessories
5	Future	32,184	2.8	Special interest consumer publisher
6	Huntsworth	31,110	2.7	Public relations
7	Mitchells & Butlers	29,099	2.5	Operator of restaurants, pubs & bars
8	Grainger	28,813	2.5	Property – residential rentals
9	Spirent Communications	28,784	2.5	Telecoms test equipment
10	SDL	26,159	2.3	Software – translation & content management
	Top Ten Investments	**312,665**	**27.1**	
11	Dunelm Group	25,782	2.2	Homewares retailer
12	Northgate	25,487	2.2	Van rental
13	Ultra Electronics Holdings	25,363	2.2	Specialist electronic & software technologies
14	Wincanton	25,106	2.2	Logistics
15	EnQuest	24,341	2.1	Oil & gas exploration and production
16	International Personal Finance	24,140	2.1	Home credit provider
17	Robert Walters	23,920	2.1	Recruitment
18	Restaurant Group	23,147	2.0	Restaurant operator
19	Ei Group	22,379	1.9	Leased & managed pub operator
20	U and I Group	21,913	1.9	Property – investment & development
	Top Twenty Investments	**554,243**	**48.0**	
21	McKay Securities	20,668	1.8	Property – London & South East offices
22	Go-Ahead Group	20,548	1.8	Bus & rail operator
23	Morgan Advanced Materials	20,351	1.8	Manufacture of carbon & ceramic materials
24	RM	20,077	1.7	IT services for schools
25	Just Group	19,855	1.7	Individually underwritten annuities
26	Eurocell	19,457	1.7	Manufacture of UPVC building products
27	Keller	19,028	1.7	Ground engineering services
28	Non-Standard Finance	18,890	1.6	Home credit provider
29	TT Electronics	18,843	1.6	Sensors & other electronic components
30	De La Rue	18,466	1.6	Bank note printer
	Top Thirty Investments	**750,426**	**65.0**	
	Other Investments (51)	417,739	36.3	
	Total Investments	**1,168,165**	**101.3**	
	Net Liabilities	(14,429)	(1.3)	
	Total Net Assets	**1,153,736**	**100.0**	

Investment Portfolio

As at 31 December 2018

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Oil & Gas Producers	**44,518**	**3.8**	**3.2**
EnQuest	24,341	2.1	
Hardy Oil & Gas	193	0.0	
Nostrum Oil & Gas	11,823	1.0	
Soco International	4,700	0.4	
Premier Oil	3,461	0.3	
Oil Equipment, Services & Distribution	**3,464**	**0.3**	**1.1**
Gulf Marine Services	3,464	0.3	
Chemicals	**5,803**	**0.5**	**2.8**
Carclo	5,803	0.5	
Industrial Metals & Mining	**–**	**–**	**0.8**
International Ferro Metals[1]	–	–	
Mining	**29,403**	**2.5**	**3.5**
Anglo Pacific Group	17,613	1.5	
Capital Drilling	2,558	0.2	
Gem Diamonds	9,232	0.8	
Kenmare Resources Warrants 2019[2]	–	–	
Construction & Materials	**56,764**	**5.0**	**4.5**
Eurocell	19,457	1.7	
Forterra	18,279	1.6	
Keller	19,028	1.7	
Aerospace & Defence	**36,210**	**3.1**	**1.8**
Senior	10,847	0.9	
Ultra Electronics Holdings	25,363	2.2	
General Industrials	**3,205**	**0.3**	**0.9**
Low & Bonar	3,205	0.3	
Electronic & Electrical Equipment	**45,846**	**4.0**	**1.8**
Morgan Advanced Materials	20,351	1.8	
TT Electronics	18,843	1.6	
Dialight	6,652	0.6	
Industrial Engineering	**44,077**	**3.8**	**1.8**
Castings	11,692	1.0	
Vitec Group	32,385	2.8	
Industrial Transportation	**25,106**	**2.2**	**2.3**
Wincanton	25,106	2.2	
Support Services	**150,665**	**13.1**	**7.8**
Connect Group	10,215	0.9	
De La Rue	18,466	1.6	
Essentra	18,346	1.6	
Management Consulting Group	2,360	0.2	
Menzies (John)	5,014	0.4	
Northgate	25,487	2.2	
Robert Walters	23,920	2.1	
RPS Group	17,103	1.5	
SIG	11,738	1.0	
Speedy Hire	18,016	1.6	
Automobiles & Parts	**15,300**	**1.3**	**0.6**
TI Fluid Systems	15,300	1.3	
Beverages	**–**	**–**	**1.0**
Food Producers	**13,257**	**1.2**	**3.5**
R.E.A. Holdings	5,793	0.5	
Bakkavor Group	7,464	0.7	

Investment Portfolio

As at 31 December 2018

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Household Goods & Home Construction	**8,345**	**0.7**	**3.1**
Headlam Group	8,345	0.7	
Leisure Goods	**–**	**–**	**0.9**
Personal Goods	**–**	**–**	**1.4**
Health Care Equipment & Services	**–**	**–**	**1.4**
Pharmaceuticals & Biotechnology	**12,635**	**1.1**	**1.7**
Vectura Group	12,635	1.1	
Food & Drug Retailers	**4,132**	**0.4**	**1.0**
McColl's Retail Group	4,132	0.4	
General Retailers	**76,722**	**6.7**	**6.0**
Carpetright	5,122	0.5	
DFS Furniture	13,180	1.1	
Dunelm Group	25,782	2.2	
Halfords Group	9,408	0.8	
N Brown Group	6,626	0.6	
Topps Tiles	8,953	0.8	
Lookers	7,651	0.7	
Media	**91,628**	**8.0**	**3.7**
Centaur Media	6,540	0.6	
Future	32,184	2.8	
Huntsworth	31,110	2.7	
Wilmington Group	11,097	1.0	
Reach	10,697	0.9	
Travel & Leisure	**153,804**	**13.3**	**9.9**
Air Partner	1,868	0.2	
Ei Group	22,379	1.9	
FirstGroup	34,855	3.0	
Go-Ahead Group	20,548	1.8	
Mitchells & Butlers	29,099	2.5	
Rank Group	9,482	0.8	
Restaurant Group	23,147	2.0	
Stagecoach Group	12,426	1.1	
Fixed Line Telecommunications	**9,694**	**0.8**	**2.1**
KCOM Group	9,694	0.8	
Electricity	**–**	**–**	**0.9**
Banks	**–**	**–**	**1.6**
Nonlife Insurance	**16,601**	**1.4**	**2.3**
Sabre Insurance Group	3,871	0.3	
Lancashire Holdings	12,730	1.1	
Life Insurance	**23,534**	**2.0**	**1.0**
Hansard Global	3,679	0.3	
Just Group	19,855	1.7	
Real Estate Investment & Services	**89,577**	**7.8**	**6.0**
Countrywide	3,401	0.3	
Grainger	28,813	2.5	
U and I Group	21,913	1.9	
Urban&Civic	35,450	3.1	
Real Estate Investment Trusts	**33,823**	**3.0**	**5.0**
Hansteen Holdings	6,705	0.6	
McKay Securities	20,668	1.8	
Capital & Regional	6,450	0.6	

Investment Portfolio

As at 31 December 2018

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Financial Services	**94,102**	**8.1**	**9.2**
Brewin Dolphin Holdings	33,826	2.9	
Charles Stanley Group	10,210	0.9	
CMC Markets	7,036	0.6	
International Personal Finance	24,140	2.1	
Non-Standard Finance	18,890	1.6	
Software & Computer Services	**51,166**	**4.4**	**4.6**
RM	20,077	1.7	
SDL	26,159	2.3	
Alfa Financial Software Holdings	4,930	0.4	
Technology Hardware & Equipment	**28,784**	**2.5**	**0.8**
Spirent Communications	28,784	2.5	
Investments as shown in the Balance Sheet	**1,168,165**	**101.3**	**100.0**
Net Liabilities	(14,429)	(1.3)	
Total Net Assets	**1,153,736**	**100.0**	**100.0**

[1] Listing suspended.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2019.

Summary of Material Investment Transactions

For the year ended 31 December 2018

Purchases	Cost £'000	Sales	Proceeds £'000
TI Fluid Systems	23,265	Vesuvius	54,145
Ultra Electronics Holdings	20,156	Bovis Homes Group	44,787
Dunelm Group	18,431	Coats Group	35,577
Restaurant Group	13,144	Hogg Robinson Group	32,464
Mitchells & Butlers	12,704	Computacenter	31,920
Wilmington Group	12,196	Bodycote	25,348
Rank Group	12,113	Laird	21,020
Lancashire Holdings	11,815	Senior	13,974
Capital & Regional	10,492	Future	12,635
Future	9,474	Huntsworth	11,634
Headlam Group	9,345	Pendragon	11,394
Grainger	9,021	TT Electronics	11,032
Lookers	8,876	Games Workshop Group	7,269
Nostrum Oil & Gas	8,580	Robert Walters	6,379
Just Group	8,296	Servelec Group	6,213
Dialight	8,171	Sabre Insurance Group	6,179
EnQuest	7,662	Grainger	5,229
Ei Group	7,170	Restaurant Group	5,215
Carpetright	7,080	Vitec Group	4,541
Alfa Financial Software Holdings	6,852	Greencore Group	3,945
Other Purchases	132,991	Other Sales	25,311
Total Purchases (incl. transaction costs)	**357,834**	**Total Sale Proceeds (incl. transaction costs)**	**376,211**

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2017 NSCI (XIC) Weight %	31 December 2017 Portfolio Weight %	31 December 2017 Portfolio Valuation £'000	Net Purchases/ (Sales)[1] £'000	Net Appreciation/ (Depreciation) £'000	**31 December 2018 Portfolio Valuation £'000**	**31 December 2018 Portfolio Weight %**	**31 December 2018 NSCI (XIC)[2] Weight %**
Oil & Gas	4	5	66,971	24,614	(43,603)	**47,982**	**4**	**4**
Basic Materials	4	2	30,925	2,359	1,923	**35,207**	**3**	**7**
Industrials	26	39	566,148	(114,090)	(90,187)	**361,871**	**31**	**21**
Consumer Goods	10	5	73,128	(22,389)	(13,836)	**36,903**	**3**	**11**
Health Care	4	1	16,005	3,784	(7,154)	**12,635**	**1**	**3**
Consumer Services	19	22	312,862	74,235	(60,811)	**326,286**	**28**	**21**
Telecommunications	2	1	8,963	1,928	(1,197)	**9,694**	**1**	**2**
Utilities	1	–	–	–	–	**–**	**–**	**1**
Financials	25	17	252,927	57,147	(52,438)	**257,636**	**22**	**25**
Technology	5	8	112,567	(45,965)	13,349	**79,951**	**7**	**5**
	100	100	1,440,496	(18,377)	(253,954)	**1,168,165**	**100**	**100**

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2017 Portfolio No. of Companies	31 December 2017 Portfolio Valuation £'000	31 December 2017 Portfolio Weight %	31 December 2017 NSCI (XIC) Weight %	**31 December 2018 Portfolio No. of Companies**	**31 December 2018 Portfolio Valuation £'000**	**31 December 2018 Portfolio Weight %**	**31 December 2018 NSCI (XIC)[2] Weight %**
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	23	540,054	38	60	**23**	**427,876**	**36**	**59**
FTSE SmallCap	41	660,501	46	31	**39**	**534,823**	**46**	**32**
FTSE Fledgling	7	49,783	3	1	**8**	**28,795**	**3**	**1**
Other	15	190,158	13	8	**11**	**176,671**	**15**	**8**
	86	1,440,496	100	100	**81**	**1,168,165**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2019.

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 2018, 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 26.

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 25 January 2019 and signed on its behalf by:

Paul Trickett,
Chairman

Governance Report

Board of Directors

Paul Trickett, Chairman

Appointed: 30 January 2013
Shareholding in the Company: 7,140 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 and Thomas Miller Holdings. He also chairs the Advisory Board of Muse Advisory and is Trustee of the Mineworkers Pension Scheme. 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 chairs the Audit Committee
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, BMO UK High Income Trust plc, Impax Environmental Markets plc and JP Morgan US Smaller Companies Investment Trust plc.

Paula Hay-Plumb

Appointed: 29 January 2014 and is a member of the Audit Committee
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 The Crown Estate, Hyde Housing Association and Oxford University Hospitals NHS Foundation Trust and a Trustee of Calthorpe Estates.

Richard Rae

Appointed: 26 January 2012 and is a member of the Audit Committee
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 Maistro plc.

Martin Warner

Appointed: 1 March 2018
Shareholding in the Company: 1,000 Ordinary Shares

Martin co-founded Michelmersh Brick Holdings plc in 1997 and served as Chief Executive and subsequently non-executive Chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors and is Chairman of the Brick Development Association.

Richard Davidson

Appointed: with effect from 26 January 2019
Shareholding in the Company: n/a

Richard is currently Chair of Miton Global Opportunities plc. He is also Chair of the University of Edinburgh's Investment Committee as well as being a Trustee of its pension scheme. Formerly, he was a Partner and Manager of the Macro Fund at Lansdowne Partners. Prior to that, he was a Managing Director and No.1 ranked investment strategist at Morgan Stanley, where he worked for 15 years. Since 2003, Richard has also been heavily involved in forestry investment and management.

Directors' Report

The Directors submit their Annual Report and Financial Statements for the year ended 31 December 2018.

Directors

The Directors of the Company during the financial year are listed on page 31. 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, Dividend Policy and Risks

These are explained fully in the Strategic Report. A non material change has been made to the investment policy to conform with regulatory wording and market practice; the policy confirms that the Company will invest no more than 15% of total assets in other listed closed-ended investment funds.

Return and Dividends

The total return attributable to shareholders for the year ended 31 December 2018 amounted to a loss of £215,871,000 (2017: gain of £262,347,000). The net asset value per Ordinary Share at 31 December 2018 was 1,273.72p (2017: 1,543.72p).

Your Board is pleased to declare a final dividend of 20.75p and a special dividend of 7.75p (total of £25,815,000), which produces total dividends for the year of 38.00p (total of £34,473,000). The final and special dividends, subject to Shareholder approval, will be paid on 7 March 2019 to Shareholders on the register at the close of business on 8 February 2019.

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 £2.0 billion (as at 31 December 2018). The firm is wholly owned by seven partners, six of whom are investment managers. The investment managers work as a team managing the Company's portfolio on a collegiate basis.

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 £10,072,000 in the year ended 31 December 2018 (2017: £9,641,000).

The secretarial fee amounted to £84,862 (excluding VAT) during 2018 (2017: £81,692, excluding VAT). 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

NatWest Trustee & Depositary Services Limited 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. During 2018, the Depositary changed from National Westminster Bank plc to NatWest Trustee & Depositary Services Limited. The ultimate parent company of both entities is The Royal Bank of Scotland Group plc.

NatWest Trustee & Depositary Services Limited receive an annual fee, payable quarterly in arrears, of 0.0085% 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 2018, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 90,580,311 were issued and fully paid. During the year, 2,418,826 shares (2.6% of the Company's issued share capital with a nominal value of £24,188) were bought back and cancelled at a total cost of £32,826,000. No shares are held in treasury. Share buy-backs may succeed in narrowing the discount between the Company's share price and net asset value per share (NAV) or in limiting its volatility, but their influence is inevitably subject to broader stockmarket conditions. Irrespective of their effect on the discount, buy-backs at the margin provide an increase in liquidity for those Shareholders seeking to crystallise their investment and at the same time deliver an economic uplift for those Shareholders wishing to remain invested in the Company. 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 in March 2020.

If such resolution is not passed, the Directors will prepare and submit to shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If such proposals are not approved, shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up. On a winding-up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of Ordinary Shares and distributed, pro rata, among such holders.

Going Concern

The Audit Committee has undertaken and documented an assessment of whether the Company is a going concern. The Committee 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 and financial risk, along with 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.

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.

Voting Rights of Shareholders

At shareholder meetings and on a show of hands, every shareholder present in person or by proxy has one vote. 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.

Directors' Report

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 the voting rights of the Company as at 31 December 2018 and 25 January 2019. The total number of voting rights amounted to 90,580,311 at each of these dates.

Notified interests	Percentage of Voting Rights Held
Brewin Dolphin Limited	10.1%
Investec Wealth & Investment Limited	8.7%
Rathbone Brothers plc	5.8%

Annual General Meeting

The AGM will be held on 28 February 2019 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 11, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2020. 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. This authority, if conferred, will be used as described on page 20 and only if to do so would be in the best interests of Shareholders generally. 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 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.

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.

Directors' Report

Bribery Act 2010

The Company does not tolerate bribery and is committed to carrying out business fairly, honestly and openly. Aberforth Partners LLP, the Company's Investment Managers, have confirmed that anti-bribery policies and procedures are in place and they do not tolerate bribery.

Modern Slavery Statement

The Company is not within scope of the Modern Slavery Act 2015 because it has no or insufficient turnover and is not obliged to make a human trafficking statement.

Criminal Finances Act 2017

The Company does not tolerate the criminal facilitation of tax evasion.

Post Balance Sheet Events

Since 31 December 2018, there are no post balance sheet events.

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
25 January 2019

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 Association of Investment Companies 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 which applies for the year ended 31 December 2018, 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. During 2018, the Financial Reporting Council issued an updated version of its UK Corporate Governance Code, which is applicable for the year ended 31 December 2019. This report forms part of the Directors' Report on pages 19 to 22.

Compliance

Throughout the year ended 31 December 2018 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 the Chair 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. At 31 December 2018, the Board comprised 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. 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 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.

Corporate Governance Report

Annual Plan

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

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

Director	The Board Eligible to attend	The Board Attended	Audit Committee Eligible to attend	Audit Committee Attended
S P Trickett, Chairman	6	6	–	–
P M Hay-Plumb	6	6	2	2
D J Jeffcoat (retired 1 March 2018)	1	1	1	1
J Le Blan	6	6	3	3
R A Rae	6	6	3	3
M R Warner (appointed 1 March 2018)	4	4	–	–

Appointments to the Board

The Board regularly reviews its composition, having regard to the Board's structure and to the present and future needs of the Company. The Board takes into account its diversity, the balance of expertise and skills brought by individual Directors, and length of service, where continuity and experience can add significantly to the strength of the Board. The Board has not yet set diversity targets or a formal policy but it does recognise diversity as described on page 17. Martin Warner was appointed on 1 March 2018 and Richard Davidson was appointed with effect from 26 January 2019. Both will stand for election by shareholders at the AGM and their biographies are on page 18. It is intended that Richard Davidson will be appointed as Chairman at the close of the AGM on 28 February 2019, following the retiral of Paul Trickett from the Board. David Jeffcoat retired at the conclusion of the AGM on 1 March 2018.

The Board established a Committee in 2017, chaired by Paul Trickett, for the purpose of appointing a new director in 2018. External search consultants, Forster Chase, were appointed to conduct a full search. The Committee held meetings with a shortlist of candidates and the process concluded with Martin Warner being appointed a Director. In the final quarter of 2018, a Committee, chaired by Richard Rae, was established to appoint a new director. Trust Associates were appointed as external search consultants to conduct a full search. The Committee held meetings with a shortlist of candidates and, as referred to in the Chairman's Statement, Richard Davidson was appointed a Director.

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 conducted this review of the Board and the Audit Committee by way of an evaluation questionnaire, providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman was led by the Chair of the Audit Committee. In 2016, the Board appointed Lintstock Limited to facilitate an external review and it was agreed to utilise external facilitators every three years.

In line with the Board's policy, all continuing Directors 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 the Chairman recommends their re-election to Shareholders.

Corporate Governance Report

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 2018 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. Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company. Directors are also encouraged to attend industry and other seminars. 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.

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 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 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 numerical rating determines its ranking into High, Medium or Low Risk. This process was in operation during the year and continues in place up to the date of this report. It principally involves the Audit Committee receiving and examining regular reports from the main 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 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. 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. During the year, the Chairman was in contact with some large Shareholders to discuss a range of topics and provided feedback to the Board.

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. 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.

Corporate Governance Report

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, 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 the 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
25 January 2019

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 Julia Le Blan (Chair), Richard Rae and Paula Hay-Plumb. Julia was appointed as Chair of the Committee on 1 March 2018, following David Jeffcoat's retirement from the Board and Paula was appointed to the Committee on the same date. The current members' biographies can be found on page 18. Each member of the Committee has recent and relevant financial experience and the Committee as a whole has competency relevant to the sector in which the Company operates.

Principal 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 are reviewed annually and are available upon request.

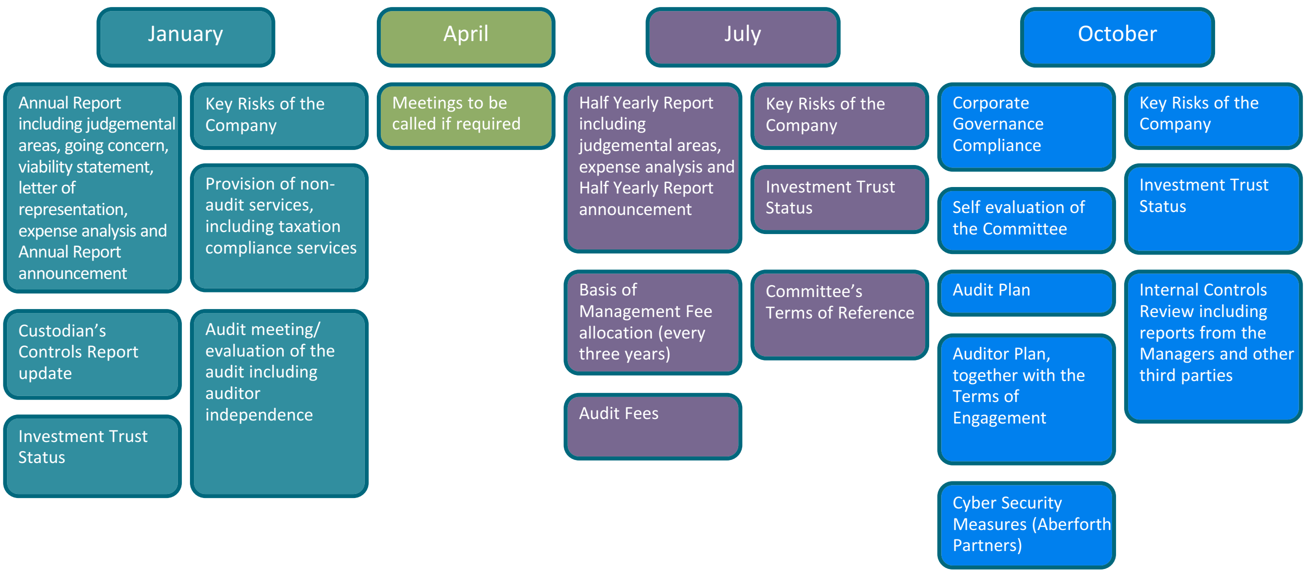
Principal Responsibilities:

The Committee has been given the following 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 which is listed on the London Stock Exchange;
- reviewing the Company's annual and interim 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;
- considering whether it is appropriate for certain non-audit services to be carried out by the Auditor;
- reviewing the need for an internal audit function; and
- assessing the going concern and viability of the Company, including assumptions used.

The Chair 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 and is reviewed annually. This is the latest version:

Audit Committee Annual Plan



Meetings

Typically three meetings are held each year. Representatives of Aberforth Partners LLP, who provide the Company with secretarial services, attend all of the meetings. Deloitte LLP ("Deloitte"), the external auditor, attends the meetings in January and October.

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

Audit Committee Report

Matters Considered and Action taken by the Committee

Financial Reporting

In July 2018, the Committee focused on the preparation and content of the Half Yearly Report, including supporting documentation from the Secretaries. The Half Yearly Report was not audited, as is customary for investment trusts.

In January 2019, 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 2018. 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 and risks review covered below. The Chair of the Committee had previously discussed the outcome of the audit process and the Annual Report with the audit partner without representatives of Aberforth Partners being present. As part of its review of the financial statements, the Committee considered the following significant issues.

Significant Issue	*How the issue was addressed*
Ownership and valuation of the investment portfolio as at 31 December 2018	*The Committee reviewed the Managers' control framework which includes controls over valuation and ownership of investments. The appointed Depositary is responsible for holding and controlling all assets of the Company entrusted for safekeeping. The Committee has reviewed internal control reports from the Company's Custodian. The valuation of the portfolio is undertaken in accordance with the accounting policy for investments as stated in Note 1 to the financial statements.*
Revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period	*The Committee reviewed the Managers' control framework which includes controls over revenue recognition. The Committee reviewed actual revenue against forecast and the accounting treatment of all special dividends.*
Investment Trust Status	*The Committee confirmed the position of the Company in respect of compliance with investment trust status 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.*
Calculation of management fees	*The Committee reviewed the Managers' control framework which includes controls over expenses, including management fees. The Committee reviewed management fees payable to the Manager. The external auditor independently recalculated the management fees as part of the audit and no exceptions have been reported.*
Alternative Performance Measures (APMs)	*The Committee discussed the disclosure of APMs in the Annual Report, including the additional information on these contained in the Glossary.*

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. Accordingly, the Committee recommended 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. 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 2019, the Committee reviewed 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 impact of losing investment trust status. The outcome of this activity led the Committee to recommend the Viability Statement to the Board.

Audit Committee Report

Matters Considered and Action taken by the Committee

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, 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 the Custodian, Northern Trust, and the Registrar, Link Asset Services. 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 monitor closely the increasing risk arising from cyber threats, notwithstanding that the Company outsources all of its activities to external parties. In July 2018, the Committee reviewed cyber security reports from both the Depositary and the Registrar. In October 2018, the Committee received presentations from Aberforth Partners and their external service provider for cyber security, covering the measures that are in place to protect the Managers' systems and the Company information that they contain. The Committee noted the assurances that have been given about the effectiveness of control measures. It concluded that, although cyber-attack represents 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.

External Auditor, Audit Planning and Audit fees

Deloitte was appointed as the Company's Auditor on 17 April 2013 following a formal tender process and this appointment has been renewed at each subsequent AGM. The Committee reviews the reappointment of the auditor every year and the need to put the audit out to tender. Based upon existing legislation, another tender process will be conducted no later than 2023. The Company is therefore in compliance with the provisions of "The Statutory Audit Services for Large Companies Market Investigation" (Mandatory use of competitive tender processes and audit committee responsibilities) Order 2014 as issued by the Competition & Markets Authority.

The audit partner needs to be rotated every five years and Chris Hunter is the new audit partner. The Chair met him in April 2018 and he presented the Deloitte audit plan to the Committee in October in advance of the 2018 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 £20,700, excluding VAT, for the year (2017: £20,100). There were no non-audit activities carried out by Deloitte.

Evaluation of the Auditor

Following the completion of the audit in January 2019, the Committee reviewed the Auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience. The Committee noted positive feedback from the Secretaries on Deloitte's performance on the audit. Additionally Deloitte had provided confirmation that they have 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 2019 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

A formal internal review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The outcome was positive with no significant concerns expressed. In 2016, a formal external review was facilitated by Lintstock Limited and it was agreed to utilise external facilitators every three years in future.

Julia Le Blan
Audit Committee Chair
25 January 2019

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 2017. 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 2018 and 31 December 2019.

	Annual Fees 2019 £	Annual Fees 2018 £
Chairman of the Company	**36,750**	36,000
Director and Chair of the Audit Committee	**30,500**	30,000
Director and Member of the Audit Committee	**26,000**	25,500
Director	**24,500**	24,000

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 34.

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	n/a
P M Hay-Plumb	29 January 2014	AGM 2019
D J Jeffcoat (retired 1 March 2018)	22 July 2009	n/a
J Le Blan	29 January 2014	AGM 2019
R A Rae	26 January 2012	AGM 2019
M R Warner (appointed 1 March 2018)	1 March 2018	AGM 2019

Each Director's unexpired term is subject to their re-election at the Annual General Meeting in February 2019.

Directors' Fees (Audited)

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

Director	**Fees (Total Emoluments) 2018 £**	Fees (Total Emoluments) 2017 £
S P Trickett, Chairman	**36,000**	34,500
D J Jeffcoat (retired 1 March 2018)	**4,932**	29,000
J Le Blan, Chair of the Audit Committee	**29,158**	24,500
P M Hay-Plumb	**25,166**	23,000
R A Rae	**25,500**	24,500
M R Warner (appointed 1 March 2018)	**20,038**	–
	140,794	135,500

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 buy-backs:

	2018 £'000	2017 £'000	Absolute change £'000
Total Directors' remuneration	**141**	136	5
Total dividends in respect of that year	**34,473**	33,051	1,422
Total share buy-back consideration	**32,826**	18,142	14,684

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests (Audited)

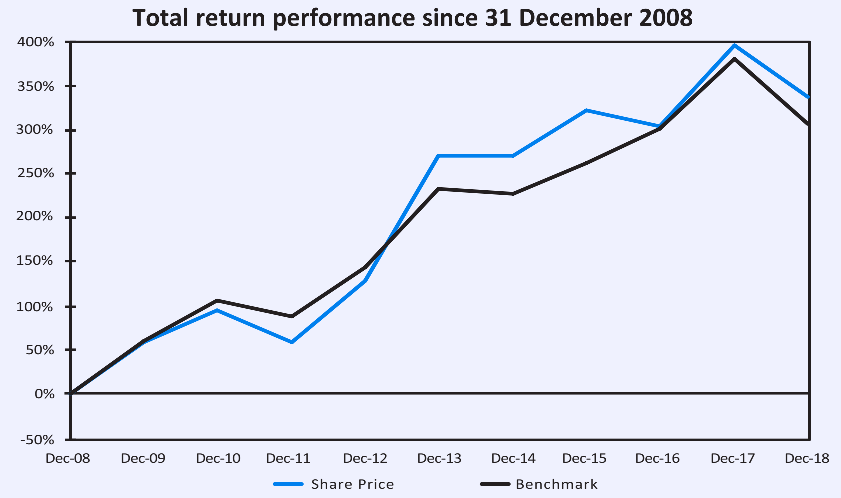
The Directors who held office at any time during the year ended 31 December 2018 and their interests in the Shares of the Company as at that date and 1 January 2018 were as follows:

Directors	Nature of Interest	Ordinary Shares **31 December 2018**	 1 January 2018
S P Trickett, Chairman	Beneficial	7,140	6,860
J Le Blan	Beneficial	3,000	3,000
D J Jeffcoat (retired 1 March 2018)	Beneficial	n/a	7,926
P M Hay-Plumb	Beneficial	2,100	2,100
R A Rae	Beneficial	4,000	4,000
M R Warner (appointed 1 March 2018)	Beneficial	1,000	n/a

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2018 and 25 January 2019. 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. To date, no Shareholders have commented in respect of the remuneration report or policy. At the last Annual General Meeting held on 1 March 2018, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report: of the 38,119,772 proxy votes, 38,103,180 were cast in favour, 10,516 were cast against and 6,076 votes were withheld. At the Annual General Meeting held in 2017, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Policy: of the proxy votes cast, 42,633,638 votes were cast in favour, 13,370 were cast against and 3,965 votes were withheld.



Note: For further information on the above graph, please refer to the Key Performance Indicators page.

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) since 31 December 2008. 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 2018:

(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

25 January 2019

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 (Financial Reporting Standard 102 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 that 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

25 January 2019

Independent Auditor's Report

To the Members of Aberforth Smaller Companies Trust plc

Opinion

In our opinion the financial statements of Aberforth Smaller Companies Trust plc (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 and updated in February 2018 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- Reconciliation of Movements in Shareholders' Funds;
- the Balance Sheet;
- the Cash Flow Statement; and
- the related notes 1 to 22.

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".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation and ownership of investments
Materiality	The materiality that we used in the current year was £11.54m which was determined as 1% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Last year, revenue recognition was classed as a significant risk. We have assessed that this is no longer the case. Dividend income received by the Company is comprised of a high volume of low value items, with the only judgement required being allocation of special dividends. Additionally, we have tested all of the dividends received by the Company last year with no exceptions noted. These facts in combination lead us to conclude that the risk of material misstatement is no longer significant.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement and note 1a to the financial statements 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.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor’s Report

Conclusions relating to going concern, principal risks and viability statement (continued)

Principal risks and viability statement

Based solely on reading the directors’ statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors’ assessment of the company’s ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 5 that describe the principal risks and explain how they are being managed or mitigated;
- 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; or
- the directors’ explanation on pages 5 and 20 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 are also required to report whether the directors’ statement relating to the prospects of the company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and ownership of investments	
Key audit matter description	The listed investments held by the company, £1,168m (2017:£1,440m) are key to its performance and account for the majority of the total assets, 99.7% at 31 December 2018 (2017: 99.7%). Please see note 1b and note 10. There is a risk that investments may not be valued correctly or may not represent the property of the Company. Given the nature and size of the balance and its importance to the entity, we have considered that there is a potential risk of fraud in this area. This key audit matter is also included in the Report of the Audit Committee within the annual report as a significant audit risk.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to test the ownership and valuation of the investment portfolio at 31 December 2018: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • confirmed the valuation of 100% of the listed investments to an independent pricing source; • confirmed 100% of listed investments at the year end to confirmations received directly from Northern Trust (custodian) and Natwest (depository); 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.
Key observations	Based on the work performed we concluded that the valuation and ownership of investments are appropriate.

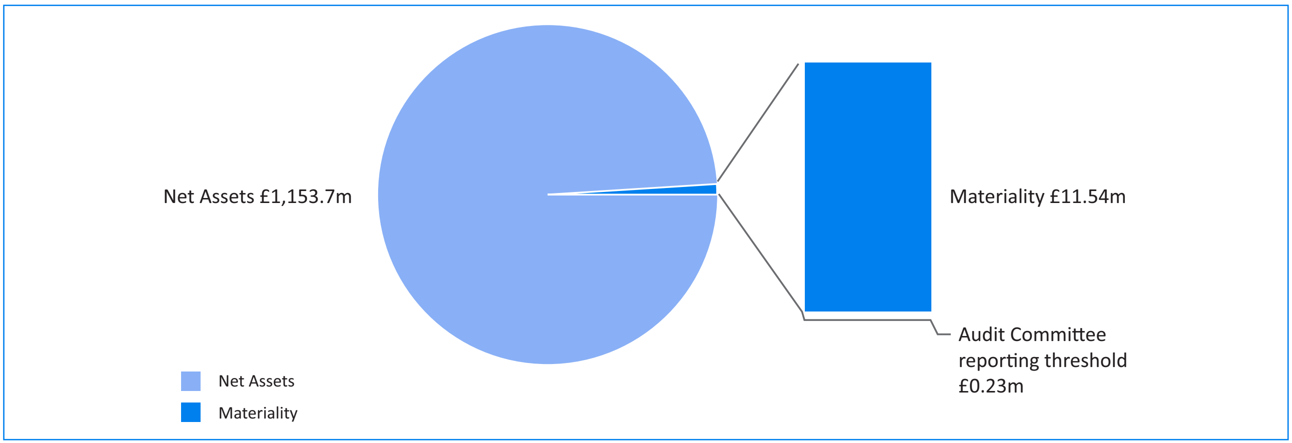
Independent Auditor's Report

Our application of materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£11.54m (2017: £14.35m)
Basis of determining materiality	1% (2017: 1%) of net assets
Rationale for the benchmark applied	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 £230,000 (2017: £287,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control and assessing the risks of material misstatement through quantitative and qualitative factors relating to each account balance, class of transactions and disclosure. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

As part of our risk assessment, we assessed the control environment in place at the Investment Managers and Secretaries to the extent relevant to our audit.

Independent Auditor’s Report

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon to ensure completeness.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors’ statement of compliance with the UK Corporate Governance Code* – the parts of the directors’ statement required under the Listing Rules relating to the Company’s compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Independent Auditor's Report

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation and ownership of listed investments given the nature of the investments, being a key performance indicator and an area of focus to users of the financial statements; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included financial reporting including Companies Act 2006 and UK Listing Rules, as well as the Company qualification as an Investment Trust under UK tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the valuation and ownership of listed investments as the key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 or 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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 17 April 2013 to audit the financial statements for the period ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Chris Hunter CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
25 January 2019

(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 accepts 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 2018

	Note	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Net (losses)/gains on investments	10	**–**	**(251,019)**	**(251,019)**	–	232,376	232,376
Investment income	3	**46,263**	**3,429**	**49,692**	43,676	–	43,676
Other income	3	**7**	**–**	**7**	1	–	1
Investment management fee	4	**(3,777)**	**(6,295)**	**(10,072)**	(3,615)	(6,026)	(9,641)
Portfolio transaction costs	5	**–**	**(2,935)**	**(2,935)**	–	(2,651)	(2,651)
Other expenses	5	**(742)**	**–**	**(742)**	(750)	–	(750)
Net return before finance costs and tax		**41,751**	**(256,820)**	**(215,069)**	39,312	223,699	263,011
Finance costs	6	**(301)**	**(501)**	**(802)**	(249)	(415)	(664)
Return on ordinary activities before tax		**41,450**	**(257,321)**	**(215,871)**	39,063	223,284	262,347
Tax on ordinary activities	7	**–**	**–**	**–**	–	–	–
Return attributable to equity shareholders		**41,450**	**(257,321)**	**(215,871)**	39,063	223,284	262,347
Returns per Ordinary Share	9	**45.30p**	**(281.22p)**	**(235.92p)**	41.59p	237.73p	279.32p

The Board declared on 25 January 2019 a final dividend of 20.75p per Ordinary Share and a special dividend of 7.75p per Ordinary Share. The Board declared on 25 July 2018 an interim dividend of 9.50p 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 2018

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2017		930	58	148,201	1,206,534	79,919	1,435,642
Return on ordinary activities after taxation		–	–	–	(257,321)	41,450	(215,871)
Equity dividends paid	8	–	–	–	–	(33,209)	(33,209)
Purchase of Ordinary Shares	14	(24)	24	(32,826)	–	–	(32,826)
Balance as at 31 December 2018		**906**	**82**	**115,375**	**949,213**	**88,160**	**1,153,736**

For the year ended 31 December 2017

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2016		944	44	166,343	983,250	69,647	1,220,228
Return on ordinary activities after taxation		–	–	–	223,284	39,063	262,347
Equity dividends paid	8	–	–	–	–	(28,791)	(28,791)
Purchase of Ordinary Shares	14	(14)	14	(18,142)	–	–	(18,142)
Balance as at 31 December 2017		930	58	148,201	1,206,534	79,919	1,435,642

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2018

	Note	**2018 £'000**	2017 £'000
Fixed assets			
Investments at fair value through profit or loss	10	**1,168,165**	1,440,496
Current assets			
Debtors	11	**3,230**	3,649
Cash at bank		**59**	293
		3,289	3,942
Creditors (amounts falling due within one year)	12	**(309)**	(199)
Net current assets		**2,980**	3,743
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,171,145**	1,444,239
Creditors (amounts falling due after more than one year)	13	**(17,409)**	(8,597)
TOTAL NET ASSETS		**1,153,736**	1,435,642
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital	14	**906**	930
Capital redemption reserve	15	**82**	58
Special reserve	15	**115,375**	148,201
Capital reserve	15	**949,213**	1,206,534
Revenue reserve	15	**88,160**	79,919
TOTAL SHAREHOLDERS' FUNDS		**1,153,736**	1,435,642
NET ASSET VALUE PER ORDINARY SHARE	16	**1,273.72p**	1,543.72p

Approved and authorised for issue by the Board of Directors on 25 January 2019 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 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Net revenue before finance costs and tax		**41,751**	39,312
Scrip dividends received	3	**(319)**	–
Receipt of special dividends taken to capital	3	**3,429**	–
Investment management fee charged to capital	4	**(6,295)**	(6,026)
Decrease/(increase) in debtors		**419**	(768)
Decrease in other creditors		**(21)**	(17)
Net cash inflow from operating activities		**38,964**	32,501
Investing activities			
Purchases of investments		**(357,515)**	(301,163)
Sales of investments		**376,211**	343,405
Cash inflow from investing activities		**18,696**	42,242
Financing activities			
Purchases of Ordinary Shares	14	**(32,826)**	(18,142)
Equity dividends paid	8	**(33,209)**	(28,791)
Interest and fees paid	17	**(609)**	(758)
Net drawdown/(repayment) of bank debt facilities (before any costs)	18	**8,750**	(27,000)
Cash outflow from financing activities		**(57,894)**	(74,691)
Change in cash during the period		**(234)**	52
Cash at the start of the period		**293**	241
Cash at the end of the period		**59**	293

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, updated in February 2018. 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 not a significant risk of 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 recognised and de-recognised 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. 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 that are 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.

(i) Capital Redemption Reserve

The nominal value of shares bought back for cancellation is added to this reserve.

Notes to the Financial Statements

2 Alternative Performance Measures

Alternative Performance Measures ("APMs") are measures that are not defined by FRS102. The Company believes that APMs, referred to as "Key Performance Indicators" on page 6, provide shareholders with important information on the Company and are appropriate for an investment trust company. These APMs are also a component of management reporting to the Board. A glossary of the APMs can be found on page 58.

3 Income

	Revenue £'000	**2018 Capital £'000**	**Total £'000**	Revenue £'000	2017 Capital £'000	Total £'000
Income from investments						
UK dividends	**43,758**	**3,429**	**47,187**	42,002	–	42,002
Scrip dividends	**319**	**–**	**319**	–	–	–
Overseas dividends	**1,167**	**–**	**1,167**	852	–	852
Property income distributions	**1,019**	**–**	**1,019**	822	–	822
	46,263	**3,429**	**49,692**	43,676	–	43,676
Other income						
Underwriting commission	**7**	**–**	**7**	–	–	–
Deposit interest	**–**	**–**	**–**	1	–	1
Total income	**46,270**	**3,429**	**49,699**	43,677	–	43,677

During the year the Company received special dividends amounting to £6,313,000 (2017: £882,000), of which £3,429,000 (2017: none) were considered a return of capital by the investee company.

4 Investment Management Fee

	Revenue £'000	**2018 Capital £'000**	**Total £'000**	Revenue £'000	2017 Capital £'000	Total £'000
Investment management fee	**3,777**	**6,295**	**10,072**	3,615	6,026	9,641

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

5 Other Expenses

	2018 £'000	2017 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**141**	136
Depositary fee	**140**	180
Secretarial services	**102**	98
FCA and LSE listing fees	**68**	57
Registrar fee	**66**	74
Custody and other bank charges	**58**	59
Legal fees	**27**	20
Auditor's fee – audit of the financial statements	**25**	24
– for non-audit services	**–**	–
AIC fees	**21**	21
Directors' and Officers' liability insurance	**11**	11
Other expenses	**83**	70
	742	750

Notes to the Financial Statements

5 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:

	2018 £'000	2017 £'000
Analysis of total purchases		
Purchase consideration before expenses	**355,681**	298,903
Commissions	**667**	610
Taxes	**1,486**	1,416
Total purchase expenses	**2,153**	2,026
Total purchase consideration	**357,834**	300,929
Analysis of total sales		
Sales consideration before expenses	**376,993**	344,030
Commissions	**(782)**	(625)
Total sale proceeds net of expenses	**376,211**	343,405
Total expenses incurred in acquiring/disposing of investments	**2,935**	2,651

6 Finance Costs

		2018			2017	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	**278**	**462**	**740**	229	383	612
Amortisation of bank debt facility costs	**23**	**39**	**62**	20	32	52
	301	**501**	**802**	249	415	664

7 Taxation

Analysis of tax charged on return on ordinary activities		**2018**			2017	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	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	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Total returns on ordinary activities before tax	**41,450**	**(257,321)**	**(215,871)**	39,063	223,284	262,347
Corporation tax at 19% (2017: 19%)	**7,876**	**(48,891)**	**(41,015)**	7,422	42,424	49,846
Adjusted for the effects of:						
Non-taxable UK dividend income	**(8,375)**	**(652)**	**(8,966)**	(7,917)	–	(7,917)
Non-taxable overseas dividend income	**(222)**	**–**	**(222)**	(225)	–	(225)
Expenses not deductible for tax purposes	**–**	**558**	**558**	–	504	504
Excess expenses for which no relief has been taken	**721**	**1,291**	**1,951**	720	1,223	1,943
Non-taxable capital losses/(gains)	**–**	**47,694**	**47,694**	–	(44,151)	(44,151)
UK corporation tax charge for the year	**–**	**–**	**–**	–	–	–
Irrecoverable overseas taxation suffered	**–**	**–**	**–**	–	–	–
Total tax charge for the year	**–**	**–**	**–**	–	–	–

The Company has not recognised a potential asset for deferred tax of £24,177,000 (2017: £22,164,000) 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. The current main rate of corporation tax is 19% (2017: 19%).

Notes to the Financial Statements

8 Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2017 of 19.75p (2016: 18.75p) paid on 6 March 2018	**18,332**	17,696
Special dividend for the year ended 31 December 2017 of 6.70p (2016: 2.75p) paid on 6 March 2018	**6,219**	2,595
Interim dividend for the year ended 31 December 2018 of 9.50p (2017: 9.05p) paid on 31 August 2018	**8,658**	8,500
	33,209	28,791
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2018 of 20.75p (2017: final dividend of 19.75p) payable on 7 March 2019	**18,795**	18,367
Special dividend for year ended 31 December 2018 of 7.75p (2017: 6.70p) payable on 7 March 2019	**7,020**	6,231
	25,815	24,598

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

9 Returns per Ordinary Share

	2018	2017
The returns per Ordinary Share are based on:		
Returns attributable to Ordinary Shareholders	**(£215,871,000)**	£262,347,000
Weighted average number of shares in issue during the year	**91,501,299**	93,923,545
Return per Ordinary Share	**(235.92p)**	279.32p

There are no dilutive or potentially dilutive shares in issue.

10 Investments

	2018 £'000	2017 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,440,496**	1,253,247
Opening fair value adjustment	**(159,308)**	(9,457)
Opening book cost	**1,281,188**	1,243,790
Purchases at cost	**355,681**	298,903
Sale proceeds	**(376,993)**	(344,030)
Realised gains on sales	**121,190**	82,525
Closing book cost	**1,381,066**	1,281,188
Closing fair value adjustment	**(212,901)**	159,308
Closing fair value	**1,168,165**	1,440,496

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

	2018 £'000	2017 £'000
Gains/(losses) on investments:		
Net realised gains on sales	**121,190**	82,525
Movement in fair value adjustment	**(372,209)**	149,851
Net (losses)/gains on investments	**(251,019)**	232,376

Notes to the Financial Statements

10 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 at fair value through profit or loss

As at 31 December 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,168,165**	**–**	**–**	**1,168,165**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,168,165**	**–**	**–**	**1,168,165**

As at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,440,496	–	–	1,440,496
Unlisted equities	–	–	–	–
Total financial asset investments	1,440,496	–	–	1,440,496

11 Debtors

	2018 £'000	2017 £'000
Investment income receivable	**3,187**	3,610
Other debtors	**43**	39
	3,230	3,649

12 Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Other creditors	**309**	199
	309	199

13 Creditors: Amounts falling due after more than one year

	2018 £'000	2017 £'000
Bank debt facility	**17,500**	8,750
Less: Unamortised costs	**(91)**	(153)
	17,409	8,597

Borrowing facilities

On 16 May 2017, the Company extended the unsecured £125 million Facility Agreement with The Royal Bank of Scotland plc for a further three years and on 17 April 2018 the Facility Agreement was novated to The Royal Bank of Scotland International Limited. A 0.15% arrangement fee was paid in connection with the extension in May 2017. This 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 ranging from 0.30% to 0.50%, depending on the level of utilisation.

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 2018, total borrowings represented 1.5% of total adjusted gross assets (as defined by the Facility Agreement). The facility is due to expire on 15 June 2020.

Notes to the Financial Statements

14 Share Capital

	2018 No. of Shares	2018 £'000	2017 No. of Shares	2017 £'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	**90,580,311**	**906**	92,999,137	930

During the year, the Company bought in and cancelled 2,418,826 shares (2017: 1,404,155) at a total cost of £32,826,000 (2017: £18,142,000). During the period 1 January to 25 January 2019, no shares have been bought back.

15 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2016	**944**	**44**	**166,343**	**983,250**	**69,647**	**1,220,228**
Net gains on sale of investments	–	–	–	82,525	–	82,525
Movement in fair value adjustment	–	–	–	149,851	–	149,851
Cost of investment transactions	–	–	–	(2,651)	–	(2,651)
Management fees charged to capital	–	–	–	(6,026)	–	(6,026)
Finance costs charged to capital	–	–	–	(415)	–	(415)
Revenue return attributable to equity shareholders	–	–	–	–	39,063	39,063
Equity dividends paid	–	–	–	–	(28,791)	(28,791)
Purchase of Ordinary Shares	(14)	14	(18,142)	–	–	(18,142)
At 31 December 2017	**930**	**58**	**148,201**	**1,206,534**	**79,919**	**1,435,642**
Net gains on sale of investments	–	–	–	121,190	–	121,190
Movement in fair value adjustment	–	–	–	(372,209)	–	(372,209)
Cost of investment transactions	–	–	–	(2,935)	–	(2,935)
Management fees charged to capital	–	–	–	(6,295)	–	(6,295)
Finance costs charged to capital	–	–	–	(501)	–	(501)
Special dividends taken to capital	–	–	–	3,429	–	3,429
Revenue return attributable to equity shareholders	–	–	–	–	41,450	41,450
Equity dividends paid	–	–	–	–	(33,209)	(33,209)
Purchase of Ordinary Shares	(24)	24	(32,826)	–	–	(32,826)
At 31 December 2018	**906**	**82**	**115,375**	**949,213**	**88,160**	**1,153,736**

16 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:

	2018	2017
Net assets attributable	**£1,153,736,000**	£1,435,642,000
Ordinary Shares in issue at the end of year	**90,580,311**	92,999,137
Net asset value per Ordinary Share	**1,273.72p**	1,543.72p
Effect of dividends received reinvested on the respective ex dividend dates	**31.65p**	34.29p
Net asset value on a total return basis	**1,305.37p**	1,578.01p

The net asset value total return for the year ended 31 December 2018 is the percentage movement from the net asset value as at 31 December 2017 of 1,543.72p (31 December 2016: 1,292.57p) to the net asset value, on a total return basis, at 31 December 2018 of 1,305.37p (31 December 2017: 1,578.01p), which is -15.4% (2017: 22.1%).

Notes to the Financial Statements

17 Interest and Finance Costs Paid

	2018 £'000	2017 £'000
Interest/non-utilisation costs on bank debt facility	**609**	758

18 Analysis of changes in net debt

	Net debt at 1 January 2018 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2018 £'000
Cash at bank	**293**	**(234)**	**–**	**59**
Bank debt facility	**(8,750)**	**(8,750)**	**–**	**(17,500)**
Bank debt facility fee (see note 13)	**153**	**–**	**(62)**	**91**
	(8,304)	**(8,984)**	**(62)**	**(17,350)**

19 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 of 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 as follows:

(i) *Interest rate risk*, is 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 fluctuations 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, are exposed to global economic conditions and currency fluctuations.

(i) Interest rate risk

The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. Cash deposit balances are held on variable rate bank accounts yielding nil as at 31 December 2018 (2017: 0.10%).

The Company has a bank debt facility of £125,000,000 of which £17,500,000 was drawn down as at 31 December 2018 (2017: debt facility of £125,000,000, of which £8,750,000 was drawn down). Further details of this facility can be found in Note 13.

If LIBOR and the bank base rate had been 1% point higher at 31 December 2018, the impact on the profit or loss and therefore Shareholders' funds would have been negative £175,000 per annum (2017: negative £87,500). If LIBOR and the bank base rate had been 0.25% point lower at 31 December 2018, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £43,750 per annum (2017: positive £21,875). There would be no direct impact on the portfolio valuation. The calculations are based on the bank facility drawn down and 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.

Notes to the Financial Statements

19 Financial instruments *(continued)*

(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 Secretaries and the Depositary monitor the Company's risk by reviewing Northern Trust's credit ratings and their internal control report. Cash at bank is held with reputable banks with acceptable external credit ratings. Outstanding investment income is reconciled to receipts on payment date.

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

	2018 £'000	2017 £'000
Investment income receivable	**3,187**	3,610
Cash at bank	**59**	293
	3,246	3,903

(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 2018, the impact on the profit or loss and therefore Shareholders' funds would have been negative £116.8m (2017: negative £144.0m). If the investment portfolio valuation rose by 10% at 31 December 2018, the impact on the profit or loss and therefore Shareholders' funds would have been positive £116.8m (2017: positive £144.0m). The calculations are based on the portfolio valuation as at the respective balance sheet dates, 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 2018, 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, 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
As at 31 December 2018

(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
Liabilities:						
Bank debt facility	**210**	**–**	**–**	**17,500**	**–**	**17,710**
Unamortised costs	**–**	**–**	**–**	**(91)**	**–**	**(91)**
Amounts due to brokers	**–**	**–**	**–**	**–**	**–**	**–**
Other creditors	**53**	**46**	**–**	**–**	**–**	**99**
Total liabilities	**263**	**46**	**–**	**17,409**	**–**	**17,718**

19 Financial instruments *(continued)*

(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 2017						
Liabilities:						
Bank debt facility	–	79	–	8,750	–	8,829
Unamortised costs	–	–	–	(153)	–	(153)
Amounts due to brokers	–	–	–	–	–	–
Other creditors	90	30	–	–	–	120
Total liabilities	90	109	–	8,597	–	8,796

(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
Cash flows payable under financial liabilities by remaining contractual maturities						
As at 31 December 2018						
Bank debt facility	**–**	**196**	**599**	**17,864**	**–**	**18,659**
Amounts due to brokers	**–**	**–**	**–**	**–**	**–**	**–**
Other creditors	**–**	**309**	**–**	**–**	**–**	**309**
	–	**505**	**599**	**17,864**	**–**	**18,968**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2017

(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	–	171	521	9,838	–	10,530
Amounts due to brokers	–	–	–	–	–	–
Other creditors	–	199	–	–	–	199
	–	370	521	9,838	–	10,729

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 13.

20 Related Party Transactions

Directors' fees and their shareholdings are detailed in the Directors' Remuneration Report on pages 31 and 32. There were no matters requiring disclosure under s412 of the Companies Act 2006.

Notes to the Financial Statements

21 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2018 (2017: nil).

22 Company information

Aberforth Smaller Companies Trust plc is a closed-ended investment company, registered in Scotland No SC126524, with its Ordinary Shares listed on the London Stock Exchange. The address of the registered office is 14 Melville Street, Edinburgh, EH3 7NS.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-eighth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 28 February 2019 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 2018 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2018 be approved.
3. That a special dividend of 7.75p per share and a final dividend of 20.75p per share be approved.
4. That Mr R G Davidson be elected as a Director.
5. That Mr R A Rae be re-elected as a Director.
6. That Mrs J Le Blan be re-elected as a Director.
7. That Mrs P M Hay-Plumb be re-elected as a Director.
8. That Mr M R Warner be elected as a Director.
9. To re-appoint Deloitte LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
10. That the Audit Committee be authorised to determine the remuneration of the Independent Auditor for the year to 31 December 2019.

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

11. That pursuant to and in accordance with its Articles of Association and in substitution for any existing authority, 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 13,577,988 (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; and
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2020 or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2020, 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*
25 January 2019

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 close of business on 26 February 2019 (or, if the Annual General Meeting is adjourned, at close of business 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 a vote electronically, log on to the Registrar's web site at www.signalshares.com and follow the instructions on screen.

   A member 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 a member submits 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 authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrar 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 28 February 2019 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, Link Asset Services (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 that 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 Annual General Meeting.

4. **Total Voting Rights**

   As at 25 January 2019, the latest practicable date prior to publication of this document, the Company had 90,580,311 Ordinary Shares in issue with a total of 90,580,311 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 Annual General Meeting 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 the 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.

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, Link 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: enquiries@linkgroup.co.uk. Website: www.linkassetservices.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

Shareholders can find up-to-date information on the Company on the Managers' website at www.aberforth.co.uk. This includes items such as the latest net asset value, share price and stock exchange announcements, as well as information relating to the portfolio, management fee and dividend history. Other websites containing useful information on the Company include www.trustnet.com, www.theaic.co.uk and www.ft.com. The prices of the Ordinary shares are also quoted daily in the Financial Times, The Times and The Scotsman newspapers.

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 Annual General Meeting to be held in 2020 (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 2018			
	Interim	**Special**	**Final**
Rate per Share:	9.5p	7.75p	20.75p
Ex Dividend:	9 August 2018	7 February 2019	7 February 2019
Record date:	10 August 2018	8 February 2019	8 February 2019
Pay date:	31 August 2018	7 March 2019	7 March 2019
Half Yearly Report	Published	late July	
Annual Report and Financial Statements	Published	late January	
Annual General Meeting		28 February 2019	
Publication of Net Asset Values		Daily (via the Managers' website)	

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed Aberforth Partners LLP 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 2018 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

	2018		2017	
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	**1.01:1**	**1.01:1**	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 relevant reporting period (year ended 30 April 2018) are available on request from Aberforth Partners.

Automatic Exchange of Information

The OECD Common Reporting Standard for Automatic Exchange of Financial Account information ('Common Reporting Standard') 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 come on to the share register 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

Investment scams are designed to look like genuine investment opportunities. You might have been contacted by fraudsters if you have been contacted out of the blue, promised tempting returns and told the investment is safe, called repeatedly or told the offer is only available for a limited time. Shareholders may receive unsolicited phone calls or correspondence concerning investment matters that imply a connection to the Company. These may be 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. Shareholders should treat all such approaches with caution.

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

Shareholder Information

Glossary of UK GAAP Measures

Net Asset Value, also described as Shareholders' Funds, is the value of total assets less all liabilities. The Net Asset Value, or NAV, per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

Gearing represents the amount by which total investments exceed Shareholders' Funds, expressed as a percentage of Shareholders' Funds. If stockmarkets rise, gearing can increase the Company's returns, but, if they fall, losses will be greater. If the amount calculated is a negative percentage then total investments are less than Shareholders' Funds.

Glossary of Alternative Performance Measures

Net Asset Value per Ordinary Share (Total Return) represents the theoretical return on NAV per Ordinary Share, assuming that dividends paid to shareholders were reinvested at the NAV per Ordinary Share at the close of business on the day the shares were quoted ex dividend (see note 16 on page 49).

Share Price Total Return represents the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the Ordinary Shares of the Company at the close of business on the day the shares were quoted ex dividend. The share price as at 31 December 2018 was 1,138.00p (2017: 1326.00p) and dividends, which went ex dividend during the year (see note 8 on page 47) were 35.95p (2017: 30.55p). The effect of reinvesting these dividends on the respective ex-dividend dates amounted to 31.91p (2017: 34.11p). The share price total return was therefore -11.8% (2017: 22.6%), being the percentage derived from the closing share price, plus the reinvestment dividend figure, divided by the closing share price at the previous year end.

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

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend. Further information on the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies), can be found on page 4.

Performance Attribution is an analysis of how the Company achieved its performance relative to its benchmark. Sector and stock selection measures the effect of investing in sectors and securities to a greater or lesser extent than their weighting in the benchmark.

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).

Ongoing Charges represent the total cost of investment management fees and other operating expenses of £10,814,000 (2017: £10,391,000), as disclosed in the Income Statement, as a percentage of the average published net asset value £1,366,495,000 (2017: £1,363,794,000) over the period, and are calculated in accordance with the guidelines issued by the AIC.

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 NAV. 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.

Portfolio Turnover is calculated by dividing the lesser of purchases and sales over one year by the average portfolio value for that year.

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

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
BR3 4TU

Shareholder enquiries:
Tel: 0871 664 0300
(Calls cost 12p per minute plus network extras)
Email: enquiries@linkgroup.co.uk
www.linkassetservices.com

Share Portal:
www.signalshares.com

Solicitors and Sponsors

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Edinburgh EH2 4DF

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Custodian

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