Aberforth Smaller Companies Trust plc

Annual Report and Financial Statements

31 December 2020

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

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 21 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 ("the Managers"). Further information can be found on page 23.

Total Return Performance

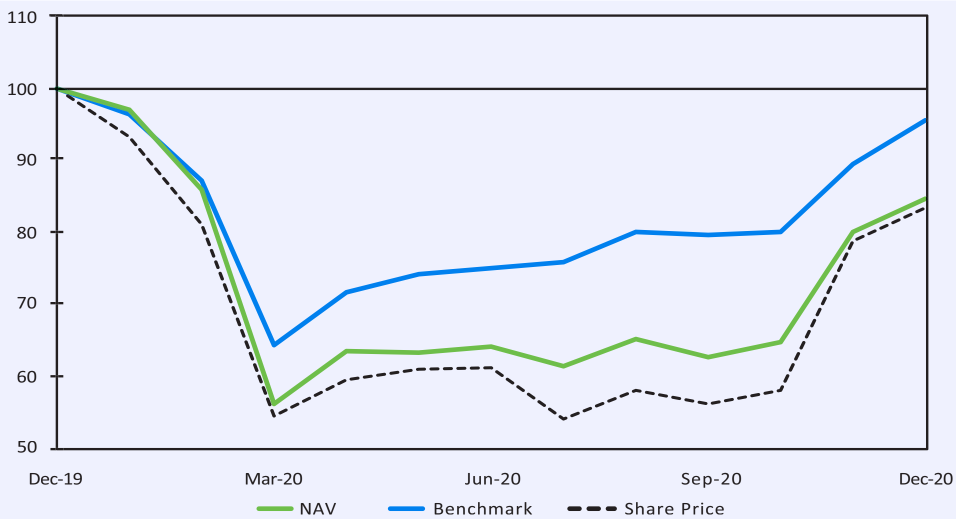
Year to 31 December 2020	%
Net Asset Value per Ordinary Share[2]	**-15.4**
Numis Smaller Companies Index (excluding Investment Companies)	**-4.3**
Ordinary Share Price[2]	**-16.5**

Financial Highlights

	31 December 2020	31 December 2019	% Change
Shareholders' Funds[1]	**£1,148m**	£1,406m	-18.3
Market Capitalisation[2]	**£1,109m**	£1,379m	-19.6
Actual Gearing employed[1]	**6.1%**	0.8%	n/a
Ordinary Share Net Asset Value[1]	**1,292.38p**	1,570.15p	-17.7
Ordinary Share price[2]	**1,248.00p**	1,540.00p	-19.0
Ordinary Share discount[2]	**3.4%**	1.9%	n/a
Revenue Return per Ordinary Share[1]	**13.28p**	42.26p	-68.6
Dividends per Ordinary Share (excluding special dividends)[1]	**33.30p**	32.00p	4.1
Dividends per Ordinary Share (including special dividends)[1]	**33.30p**	36.00p	-7.5
Return attributable to equity shareholders per Ordinary Share[1]	**-245.50p**	332.22p	n/a
Ongoing Charges[2]	**0.81%**	0.77%	n/a
Portfolio Turnover[2]	**30.4%**	23.8%	n/a

[1] UK GAAP Measure [2] Alternative Performance Measure (refer to glossary on page 61) Source: Aberforth Partners LLP

Absolute Performance over past year
(figures are total returns and have been rebased to 100 at 31 December 2019)



Chairman's Statement

Review of performance

The year was ushered in with cautious optimism by UK investors following the December 2019 election, but would end up being defined by the Covid-19 pandemic. The direct and indirect cost to human life serves as a stark reminder of the role infectious disease has played in history. But human ingenuity, as in the past, has responded. In the world of populist politics and fragmented media, it has sometimes been difficult to appreciate the progress made by the scientific community. The vaccine development is astonishing, while treatments have also developed to mitigate the impact of the virus.

Economically, the impact is hard to contextualise, as it is necessary to go back to the 18th century to witness a comparable decline in the UK's gross domestic product. Policy stimulus, both monetary and fiscal, has been exceptional and global in nature.

It was a disappointing year for the Company. The FTSE 100 Index's total return was -11.5% and that of the FTSE All-Share Index, which is heavily weighted towards large companies, was -9.8%. The Numis Smaller Companies Index (excluding Investment Companies) ("NSCI (XIC)") is the Company's benchmark. Its total return was -4.3%. The Company's net asset value total return was -15.4%. This reflects the Income Statement's return attributable to equity Shareholders of -245.50p per share (2019: 332.22p), which comprises the capital return together with the effect of dividends received and re-invested. The share price generated a total return of -16.5%. Despite the year's volatile events, the year-end share price discount of 3.4% was broadly similar to the level that prevailed at the start of the year.

The Managers' Report, which perhaps unsurprisingly is slightly longer than in previous years, reviews 2020 performance and more importantly the prospects for the future.

With all that has happened in 2020, it is easy to forget that ASCoT reached its 30th anniversary in December. Those three decades have witnessed many tumultuous events, including three recessions, the TMT bubble, the global financial crisis, swings in interest rates from 15% to almost zero, referendums and, of course, a pandemic. Though not unscathed by these events, ASCoT's 30-year record of growth in total returns and dividends has so far stood the test of time.

Dividends

In last year's Chairman's Statement, I laid out the Board's commitment to a progressive dividend policy. I tempted fate by suggesting that the acid test of our policy would be the ability to deliver dividend growth through the next downturn. That downturn quickly came to pass and it includes what is unquestionably the most severe dividend recession since the Company's formation in 1990 or indeed since 1955 when the data series for the NSCI (XIC) begins. For small companies, aggregate dividends more than halved in 2020.

Nevertheless, the Board remains committed to a progressive dividend policy and is able to keep to that commitment by virtue of the revenue reserves that the Company prudently built up in the good times. In this context, the Board is pleased to propose a final dividend of 22.9p per Ordinary Share. Total ordinary dividends of 33.3p per share for 2020 represent a 4.1% increment when compared with 2019's 32.0p, which was itself up by 5.8% year-on-year. To deliver the full year dividend, the Company will use 19.4p of its revenue reserves. This will leave 56.7p of reserves, which is circa 1.7x the ordinary dividend.

In reaching its decision on the dividend, the Board has taken confidence from the revenue reserves and from tentative signs through the latter part of the year that investee companies are resuming the payment of dividends. The process of dividend recovery will not be linear and 2020's deficit will take more than one year to fill. Nevertheless, as the Managers' Report explores in more detail, growth in small company dividends looks likely in 2021 and medium-term prospects still appear consistent with the Board's progressive dividend policy.

Gearing

It has been the Company's policy to use gearing in a tactical manner throughout its 30-year history. The £130m facility with The Royal Bank of Scotland International has a term that runs to June 2023. 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 what is at times a volatile and less liquid asset class, having access to immediate funds through a credit facility provides the Managers with enhanced flexibility.

In response to the year's severe share price declines and consistent with its tactical approach to gearing, the Company utilised its debt facility during 2020. This is only the fourth occasion in ASCoT's 30-year history that it has deployed gearing and highlights the opportunity that emerged in 2020. During the year, the level of gearing ranged from nil to 7.0%, with an average of 3.1%. As my comments on the outlook below, along with the Managers' Report, make clear, the Company's portfolio valuations in the early stages of the new year are consistent with keeping the gearing in place: at the year-end gearing stood at 6.1% of Total Shareholders' Funds.

Share buy-back

At the Annual General Meeting in March 2020, the authority to buy back up to 14.99% of the Company's Ordinary Shares was approved. During the year, 710,000 Ordinary Shares (0.8% of the issued share capital) were bought in at a total cost

Chairman's Statement

of £6.1m and at an average discount of 13.8%. Consistent with the Board's stated policy, those Ordinary Shares have been cancelled rather than held in Treasury. The Board continues to believe that, at the margin, buy-backs provide an increase in liquidity for those Shareholders wishing to crystallise their investment and, at the same time, deliver an economic uplift for those Shareholders wishing to remain invested with the Company. Once again, the Board will be seeking to renew the buy-back authority at the Annual General Meeting on 2 March 2021.

Board changes

The Board regularly reviews its composition and structure in line with corporate governance requirements. Richard Rae, who has been a Director for nine years, will not stand for re-election at the forthcoming Annual General Meeting. Richard has made a significant contribution to the Board's deliberations and we wish him well for the future. As I indicated in my Interim Report, the Board appointed Victoria Stewart as a Director of the Company with effect from 1 September 2020 and we are already benefiting from her investment management experience of more than 22 years.

Annual General Meeting ("AGM")

The AGM will be held at 14 Melville Street, Edinburgh EH3 7NS at 2.30 pm on 2 March 2021. Details of the resolutions to be considered by Shareholders are set out in the Notice of the Meeting on page 57. Owing to the Covid-19 restrictions on attendance at public gatherings, along with the Government advice to stay at home as much as possible and limit contact with other people, Shareholders will not be permitted to attend the AGM in person and it will be held as a closed meeting. The only attendees permitted will be those who are required to form a quorum and allow the business of the meeting to be conducted. Accordingly, the Board advises Shareholders to submit their vote by proxy in accordance with the Notice of the AGM. Despite the prevailing restrictions, the Board welcomes questions from Shareholders and invites any questions to be submitted by email to enquiries@aberforth.co.uk before 11.00 am on 26 February 2021. Questions will be considered by the Board and responses provided. In light of these circumstances a brief update on performance and the portfolio will be available on the Managers' website following the closed meeting. In accordance with normal practice, the results of the AGM will be issued in a regulatory news announcement and also posted on the website.

Outlook

After such a challenging year, it is worth all of us, as investors, remembering that the stockmarket always looks forward. Through that lens, and acknowledging the world is a very different place from last January, the cautious optimism I expressed in last year's statement towards prospects for the Company, for small UK quoted companies and for the value investment style remains relevant.

As was the case in 2019, the year drew to a close with a strong performance from the value investment style. Perhaps this episode merely offers some respite from the pain of the earlier part of the year, but the final quarter of 2020 brought a magnitude of style rotation that had not been seen since the turn of the millennium at the time of the TMT bubble. The three catalysts of the vaccines, the Brexit trade deal and anticipation of the so-called blue wave following the US election contributed to a quarter of exceptional returns for the Company – its strongest ever month came in November and strongest ever quarter in the final three months of 2020. The shift in favour towards value investing may prove short lived in much the same way as other such periods have since the financial crisis. Alternatively, the impact of change brought by the virus, the scale of fiscal stimulus and the extreme valuation stretches within stockmarkets may combine to make the recent moves more enduring.

While the short-term outlook is likely to be influenced by the tug of war between the vaccine roll out and disease progression, current valuations offer a more promising outlook for the Company on a medium-term time horizon. The historical price earnings ratio of 10.8x for the benchmark is circa 22% below the average of the past 30 years, while the portfolio's historical 7.3x multiple stands just over 40% below its 30-year average. Stockmarkets are well versed in dealing with such anomalies and, as they do so, the Board is reassured that the Company should benefit. The concluding months of 2020 demonstrate the relevance of the Managers' value investment style and the scope for exceptional returns for the Company when the stockmarket's investment horizons broaden from their very narrow focus of recent years.

As the Company moves into its fourth decade, I am chastened by tempting fate twelve months ago, but, together with the rest of the Board, I once again look forward with cautious optimism based on the portfolio's valuation and the Managers' consistency of offering.

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

Richard Davidson
Chairman
29 January 2021
richard.davidson@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 2021 (the date of the last annual index rebalancing), the index included 334 companies, with an aggregate market capitalisation of £141 billion. Its upper market capitalisation limit was £1.5 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 ratio 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.

Directors' Duty to Promote the Success of the Company

The Directors have a duty to promote the success of the Company for the benefit of Shareholders as a whole and to describe how they have performed this duty having regard to matters set out in section 172(1) of the Companies Act 2006. In fulfilling this duty, the Directors consider the likely consequences of their actions over the long term and on other stakeholders.

As an externally managed investment company, the Company does not have employees. Its main stakeholders therefore comprise its Shareholders, who are also its customers, and a small number of suppliers. These suppliers are external firms engaged by the Board to provide, amongst others, investment management, secretarial, depositary, custodial and banking services. The principal relationship is with the Managers and page 23 contains further information. Their investment management services are fundamental to the long term success of the Company through the pursuit of the investment objective. The Board regularly monitors the Company's investment performance in relation to its objective and also to its investment policy and strategy. It seeks to maintain a constructive working relationship with the Managers and on an annual basis reviews their continuing appointment to ensure it is in the best long term interests of Shareholders. The Board receives and reviews detailed presentations and reports from the Managers and other suppliers to enable the Directors to exercise effective oversight of the Company's activities. Further information on the Board's review process is set out in the Corporate Governance Report. The Managers seek to maintain constructive relationships with other suppliers on behalf of the Company, typically through regular communications, provision of relevant information and update meetings.

To help the Board in its aim to act fairly as between the Company's members, it encourages communications with all Shareholders. The Annual and Interim reports are issued to Shareholders and are available on the Managers' website together with other relevant information including monthly factsheets. The Managers offer to meet the larger Shareholders twice a year to provide detailed reports on the progress of the Company and receive feedback which is provided to the Board. Directors are also available to meet with Shareholders during the year and, in normal times, at the AGM. Shareholders' views are considered as part of the Board's regular strategy reviews. Shareholders have the opportunity to validate the Board's strategy through a triennial vote on the continuation of the Company and the Board encourages Shareholders to participate in this vote.

In seeking to enhance value for Shareholders over the long term, the Board has also established guidelines to allow the Managers to deploy gearing on a tactical basis when opportunities arise and to implement share buy-backs. During the year the Company's borrowing facility was refinanced for a further three years and as described in the Chairman's Statement part of it has been drawn down to take advantage of attractive investment valuations. In addition, the Board remains committed to a progressive dividend policy, as reflected in the dividends announced for the year.

As described in more detail within the Corporate Governance Report, the Board is committed to maintaining and demonstrating high standards of corporate governance in relation to the Company's business conduct.

The Board also expects good standards at the companies within which the Company is invested. In this regard, it is satisfied that the Managers' investment process incorporates regular consideration of investee companies' governance structures and procedures. It is also encouraged that the Managers engage consistently and proactively with the boards of investee companies on governance and other matters that are material to the investment case. These activities are ultimately important to the long term success of the Company.

Many investment cases are influenced by environmental, social and governance (ESG) matters, particularly as the increased profile of such issues affects the stockmarket's valuations of companies. The successful design and implementation of environmental and social policies are the responsibility of a company's board and governance regime. Whilst the Managers do not exclude investments from the portfolio based on ESG matters alone, and a broad range of factors is used for evaluation, ESG considerations are an important component of the investment case assessment. Where ESG matters impinge upon the investment case, the Managers actively engage with investee companies to encourage the issues to be addressed and improved. The Managers are well placed to undertake this activity, since engagement has always been a fully integrated element of their investment process. The Managers' adoption of the UK Stewardship Code 2020 highlights more transparently the engagement and voting activity undertaken. Their investment team is well resourced and, collectively, has a deep knowledge and understanding of small UK quoted companies, derived from many years of interaction and fundamental research. The Managers' long history of investing in small UK quoted companies and their willingness to take significant stakes in investee companies can also be helpful in their engagement with investee company boards. Further detail on the Managers' stewardship policy, and supporting documentation, is available within the 'About Aberforth' section of the Managers' website, at www.aberforth.co.uk.

In summary, the Board's primary focus in promoting the long term success of the Company for the benefit of its Shareholders as a whole is to direct the Company with a view to achieving the investment objective in a manner consistent with its stated investment policy and strategy. In doing so, and as described above, it has due regard to the impact of its actions on other stakeholders and the wider community.

Principal Risks

The Board carefully considers risks, including emerging 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 Board receives internal control reports from these firms to review the effectiveness of their control frameworks. Since the Covid-19 pandemic, these firms have deployed alternative operational practices, including staff working remotely, to ensure continued business service.

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. As described in the Chairman's Statement and Managers' Report, Covid-19 has caused a significant reduction in capital values and dividends from UK small companies.

(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 stock selection and 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.*

(ii) Market risk – investment performance is impacted by a number of market risk factors, including uncertainty about future price movements of investments. *The Managers regularly assess the exposure to market risk when making investment decisions and the Board monitors the results of the investment process with the Managers. The Board and Managers closely monitor economic and political developments and, in particular, are mindful of the continuing uncertainty following the departure of the UK from the EU, the ongoing impact of the Covid-19 pandemic and government responses, the potential effects of climate change and other geopolitical issues referred to in the Managers' Report.*

(iii) 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.*

(iv) 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.*

(v) Reputational risk – the reputation of the Company is important in maintaining the confidence of shareholders. *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.*

(vi) Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company 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 2025, taking account of the Company's position, its investment strategy, and the potential impact of the relevant principal risks detailed above, including Covid-19. 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 again in 2023.

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 number of holdings and industry sector. The Directors determined that a five year period to December 2025 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. A glossary of these Alternative Performance Measures can be found on page 61.

Historical Total Returns

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2020	**-15.4**	**-4.3**	**-16.5**
1 year to 31 December 2019	26.9	25.2	39.8
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

Periods to 31 December 2020	Annualised Returns (%) NAV	Index	Share Price	Cumulative Returns (%) NAV	Index	Share Price
2 years from 31 December 2018	3.6	9.5	8.0	7.4	19.8	16.7
3 years from 31 December 2017	-3.2	0.5	1.0	-9.2	1.4	3.0
4 years from 31 December 2016	2.6	4.9	6.0	10.9	21.2	26.3
5 years from 31 December 2015	3.2	6.1	3.9	17.3	34.6	21.0
6 years from 31 December 2014	4.4	6.9	5.5	29.3	48.9	37.7
7 years from 31 December 2013	3.6	5.6	4.7	28.4	46.1	37.9
8 years from 31 December 2012	8.8	9.1	10.6	95.6	100.1	123.3
9 years from 31 December 2011	11.1	11.2	13.8	158.0	160.0	221.3
10 years from 31 December 2010	8.4	9.0	10.1	123.3	136.3	162.0
15 years from 31 December 2005	7.1	8.5	7.6	178.8	238.9	200.4
20 years from 31 December 2000	9.4	8.4	10.7	498.7	398.7	663.2
30.1 years from inception on 10 December 1990	12.1	10.3	12.1	2,984.9	1,815.3	2,965.3

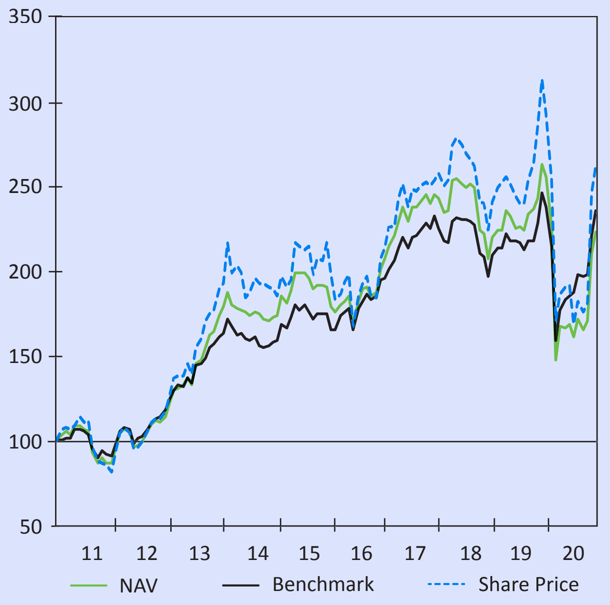
Ten Year Summary

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 %
2020	**1,292.4**	**1,248.00**	**3.4**	**13.28**	**33.30**	**0.81**	**6.1**
2019	1,570.2	1,540.00	1.9	42.26	36.00	0.77	0.8
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

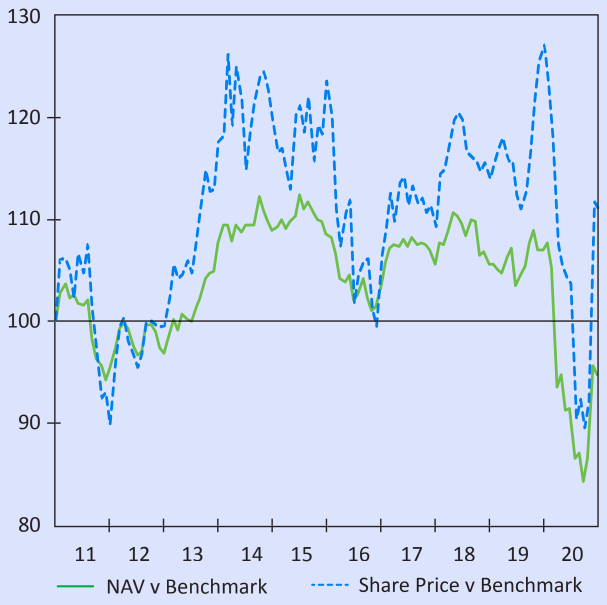
Performance Indicators

Ten Year Investment Summary

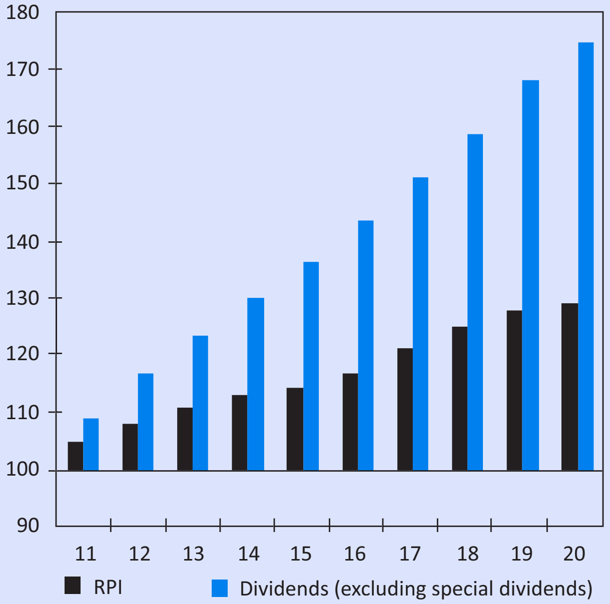
Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2010)



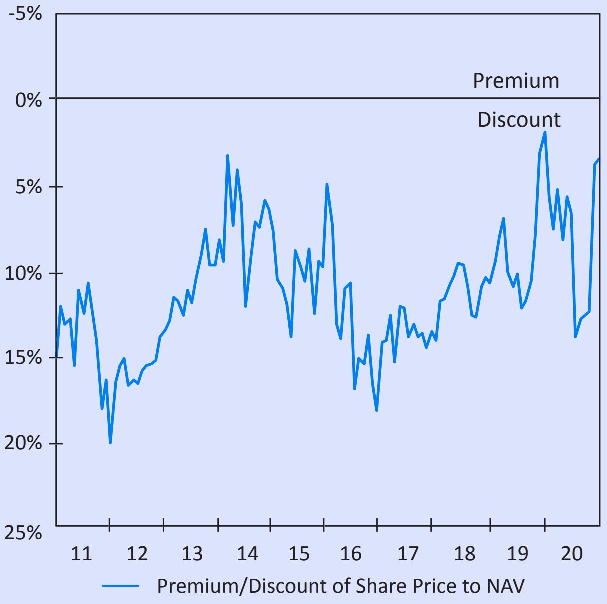
Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2010)



Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2010)



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



Managers' Report

Introduction

The experience of 2020 will live long in the memory for the lives lost directly and indirectly to Covid-19. Through the measures taken to control its spread, the virus will also have lasting effects on how we live and on economic activity. A global pandemic was often cited as a plausible "left field" risk to modern globalised societies, but the reaction of financial markets to Covid-19 shows how unprepared the world was.

In 2020, the total return from UK equities was -9.8%, as gauged by the FTSE All-Share, which is dominated by larger companies. The NSCI (XIC), the index of smaller companies that is ASCoT's benchmark, recorded a return of -4.3%. ASCoT's net asset value total return was -15.4%. This poor year of absolute and relative performance combined aspects of the global financial crisis, as economies lurched into recession, and of the TMT bubble around the Millennium, as many highly rated technology companies benefited from lockdown conditions.

The overall performance numbers belie a year of extraordinary volatility. The damage to ASCoT's performance came in the first quarter of the year as the impact of Covid-19 and lockdown was felt. In this period, ASCoT's net asset value declined by 43.8%, which compares with a fall of 35.6% for the NSCI (XIC). This was, by some distance, the worst calendar quarter for ASCoT in its 30 year history. The fortunes of the portfolio's cyclical companies turned viciously as the optimism around last year's decisive election result evaporated. Notwithstanding the substantial assistance from government and the Bank of England, lockdown crushed economic activity and squeezed liquidity within the corporate sector – doubt about the viability of many businesses was extreme.

However, even though uncertainty about the virus and the path out of lockdown was still intense, most share prices reached their low points in late March. In the nine months from 31 March to 31 December, ASCoT's asset value rose by 50.6% in total return terms, against the NSCI (XIC) up by 48.7%. With the series of vaccine announcements breathing life into the equity of the portfolio's holdings, performance improved as the year progressed: November was ASCoT's strongest ever month and the final three months of 2020 were its strongest ever calendar quarter.

The subsequent sections of this report describe in some detail how the events of the year affected ASCoT. The Conclusion & Outlook provides a summary of the main points as well as an assessment of the Company's prospects.

2020 – a review of a difficult year

Despite Brexit and a US presidential election, Covid-19 dominated 2020. From the portfolio's perspective, the virus itself was less significant than the measures taken to tackle it. Lockdown constrained consumer behaviours and precipitated the UK's sharpest recession in over three hundred years. Many companies, particularly those serving the domestic economy, saw their revenues dwindle to zero in the months after the imposition of the first lockdown and were confronted by the prospect of rapidly diminishing cash resources. This was not a scenario with which anyone, let alone those responsible for companies' viability statements, had previously had to contend.

This liquidity squeeze precipitated the deepest dividend cuts since records began and would have proved fatal for many businesses – the so-called "Covid victims" – without external assistance. That assistance came in three forms. First, the government and Bank of England deployed huge support programmes in the form of the Coronavirus Job Retention Scheme (furlough), the Covid Corporate Financing Facility (CCFF) and others. Second, lenders to companies relaxed the terms of existing debt facilities. Third, the equity market played its part, with pre-emption rules temporarily eased and large sums raised by several companies through the issue of new shares.

The second quarter was extraordinarily busy in terms of engagement with the boards of investee companies. The companies attempted to gauge the equity markets' appetite to be part of the solution, while the Managers sought to quantify the extent of the liquidity problem and, with a longer term perspective, to discuss appropriate dividend policies. Additionally, the Managers engaged with the Bank of England both to improve knowledge of their support schemes and to relay relevant information gathered from companies. The swapping of intelligence through this period and the preparedness on occasion to become temporary insiders were crucial, since there was a dearth of information with company guidance generally withdrawn. Through it all, the Managers' objective was unchanged: to discern where ASCoT's capital could be most profitably deployed and thus to enhance the potential upside from the portfolio. Consistent with this, ASCoT did not support every equity issue undertaken by investee companies. Indeed, in certain cases the Managers advised against the issuance of shares while uncertainty was at its greatest and dilution would be more significant.

After the initial period of confusion, reflected in the precipitous drop in share prices, the summer months brought some stability and clarity. While the full economic impact of lockdown – the longer term "scarring" – has been deferred by the official support measures, it became clear that the virus could be controlled. This allowed some tentative recalibration of forecasts both by companies and investors. Meanwhile, the immediate and most pressing corporate liquidity issues were quantified and addressed. At the same time, the easing of lockdown brought a recovery in companies' revenues and suggested a willingness on the part of consumers to revert, more or less, to previous habits. It was through this middle part of the year that the boards of small companies proved that they could meet the challenges posed by Covid-19 and proved the resilience of their businesses, as they did in the global financial crisis and in the wake of the EU referendum. Trading updates through the Autumn were generally better than expected and several companies were able to resume dividend payments.

Against this background, which was encouraging despite the advent of the second lockdown, the vaccine announcements arrived in November. These proved the catalyst for a broad reappraisal by the financial markets of the prospects for economic activity and for cyclical companies. Investment horizons elongated as confidence rose that a return to a normal way of life was achievable and that a recovery in profits could commence. The stockmarket re-engaged with businesses that it had previously priced to be without a future of more than a few years. These companies were aggressively re-valued, to ASCoT's benefit. This was another damning episode for market efficiency, with the equity market again struggling to calibrate value in a period of stress. Echoing the experience of the Nifty Fifty and the TMT bubble, the market focused narrowly on those businesses immune to or benefiting from the effects of Covid-19. It therefore lost sight of the beneficiaries of the ingenuity that it otherwise prized so highly.

The inspiration from the remarkably rapid vaccine development would have been a good way to have ended a bad year. However, Brexit politics threatened to complicate the immediate outlook for the UK economy. In the event, a trade deal with the EU was secured. The detail of its implementation is not yet fully clear, but the near term prospects for the UK economy are undoubtedly better with an agreement in place. From the perspective of the portfolio, it reduces uncertainty and removes an excuse for overseas investors to ignore UK assets, which have been global pariahs for several years. Nevertheless, beyond Brexit, any upside from the UK's regained sovereignty may be complicated by the political fallout from Covid-19 and questions about the Union itself.

In considering the operating performance of the portfolio's holdings and of small companies more generally in 2020, an important lesson is the resilience of the underlying businesses. Most companies are sensitive to the economic cycle, with their profits waxing and waning in step with broad economic activity. It is certainly the case that, since the global financial crisis, cyclicality around the world has been shunned by most investors – stockmarket valuations of such businesses had fallen to the extent that they have attracted value investors, such as the Managers. With the onset of Covid-19 and lockdown, cyclical companies have suffered disproportionately in terms of profits and share prices. However, cyclicality does not equate to low quality. The businesses within the portfolio, while predominantly cyclical, are resilient. They can cover their cost of capital and can grow from cycle to cycle. They are well managed and balance the interests of their shareholders with responsibilities to other stakeholders. These characteristics are often overlooked, seldom to such a degree as in 2020, but give confidence that future challenges can be met.

Investment performance

To recap, ASCoT's net asset value total return in 2020 was -15.4%. In comparison, the NSCI (XIC)'s return was -4.3%. The following table and paragraphs describe the main influences on ASCoT's absolute and relative performance.

Performance for the 12 months ended 31 December 2020	Basis points
Attributable to the portfolio of investments, based on mid prices	**(1,229)**
(after transaction costs of 21 basis points)	
Movement in mid to bid price spread	-
Cash/gearing	172
Purchase of ordinary shares	7
Management fee	(52)
Other expenses	(6)
Total attribution based on bid prices	**(1,108)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = -15.37%; Benchmark Index = -4.29%; difference is -11.08% being -1,108 basis points).

Size

For the purposes of this analysis, the size effect concerns the relative performance within the NSCI (XIC) of its "larger small" companies, which are defined as the overlap between the FTSE 250 and the NSCI (XIC), and its "smaller small" companies, which are the index's other constituents. This is relevant because the portfolio has a high exposure to the index's "smaller smalls", a position that reflects the considerably lower valuations for these companies. A useful gauge of the relative performance of the two groups is the performance of the FTSE 250 against that of the FTSE SmallCap. In 2020, the FTSE SmallCap out-performed the FTSE 250 by 10%, thanks principally to a much stronger rebound in November. The strength of the "smaller smalls" means that, all else being equal, size would have benefited ASCoT's performance in 2020. However, other factors – notably style as described below – proved more influential.

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Style

Notwithstanding a rebound in the fourth quarter inspired by the vaccine news, the value investment style struggled in 2020. The London Business School (LBS) maintains the NSCI (XIC) and conducts style analysis on its constituents. Defining value stocks as those with the lowest price to book ratios, it calculated that value lagged growth by 14% in 2020. Though the Managers determine value in a broader fashion and use a variety of valuation metrics, the LBS analysis is indicative of strong headwinds for value managers. Style was therefore an important contributor to ASCoT's under-performance in 2020.

The past decade has been challenging for value investors, with subdued economic growth, disinflation and ever lower government bond yields. These conditions have favoured the valuations of companies offering secular growth potential and have elongated investment horizons to the benefit of businesses that might not generate meaningful cash flows for some years. The generational issues at work over the past decade remain relevant, but the specific reason for the value style's particular struggles in 2020 was the recession that ensued from lockdown. As explained above, coming into the Covid-19 period, value stocks – both in the UK small cap world and more broadly – were generally sensitive to the economic cycle. Their profits and valuations were therefore vulnerable to lockdown, which was to the detriment of ASCoT's performance. A corollary of this is that the portfolio is likely to fare better once confidence in economic recovery builds – this was the case in the final quarter of the year as the vaccine news allowed markets to look beyond the second lockdown.

Profits

The table below shows the Managers' estimates for the aggregate EBITA (earnings before interest, tax and amortisation) of the portfolio and of the tracked universe. The tracked universe is those companies in the NSCI (XIC) that the Managers follow closely and represents 95% by value of the NSCI (XIC). Oil and gas production companies are excluded since their profits are volatile and distort the underlying message of the majority of companies.

Estimated change in aggregate EBITA	2020	2021	2022	2023	4 years
Portfolio ex oil & gas producers	-45%	+52%	+26%	+12%	+18%
NSCI (XIC)	-37%	+41%	+21%	+4%	+11%

The table demonstrates the cyclicality of the portfolio, for worse on the way down in 2020 and for better in the subsequent years. The recovery profile reflects considerations of the second wave of the virus, lockdowns, lasting economic effects, changing societal behaviours and the vaccines. Certain individual forecasts will no doubt prove inaccurate, but the Managers believe the framework to be useful.

The impact on profits shown in the table misses another factor. In the absence of Covid-19 and recession for any other reason, profits would have grown each year. By 2023, profits would have been around 25% higher than they are now expected to be, which is a quantification of the opportunity cost of the pandemic. However, the important point for equity valuations is that the recovery does take place: the resilience and nimbleness of small companies has allowed them to stay in the game to benefit from economic recovery and normalisation. For much of 2020, the stockmarket appeared to doubt the viability of many businesses and was valuing them as if they would not make it through to the recovery.

Sector

Since 2016's EU referendum, sterling has weakened against other currencies, which has fostered the development of a strong sectoral theme within UK equities in general and within the portfolio. The share price performances of overseas facing companies have been much stronger than those of companies oriented towards the domestic economy. Covid-19 accentuated that trend: the Managers calculate that domestics lagged by 10% in 2020 to take their under-performance since the referendum to 27%. As a global pandemic, the coronavirus affected both overseas and domestic businesses, but the former experienced a less harsh downturn as economic activity recovered strongly in China. In contrast, the domestic facing sectors have been characterised as the so-called "Covid victims".

The portfolio's geographical profile at the start of 2020 was inappropriate for what was to come. The Managers estimate that, of the underlying sales of the holdings at 31 December 2019, 63% were generated in the UK, compared with 54% for the NSCI (XIC). This tilt towards the domestic economy had arisen since the EU referendum as the valuations of the domestic businesses had fallen sharply relative to the overseas earners. The positioning proved helpful in 2019 as political clarity promised an economic benefit, but that proved short-lived. Domestic exposure accounted for a substantial majority of ASCoT's under-performance against the NSCI (XIC) in 2020.

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The Travel & Leisure sector is a useful illustration. The portfolio's exposure here coming into 2020 was principally through bus and rail companies, a pub group, a restaurant business and a gaming operator. Covid-19 brought three impacts on relative performance.

- First, the recessionary conditions saw the profits of the holdings in the pub, restaurant and casino companies collapse. The specifics of lockdown worsened the experience, but the falls in profits and share prices were broadly what might be expected of cyclical businesses.
- Second, the bus and rail operators also saw their profits vanish. In the context of the analysis of these businesses before the advent of Covid-19, this was more surprising. One of the attractions of bus franchises over the years has been the relative stability of their revenues. However, that stability was overwhelmed by the pandemic and lockdown – the bus operators went from being one of the more resilient components of the portfolio to one of its most vulnerable.
- Third, the portfolio had no exposure to the highly valued companies operating on-line betting platforms within the Travel & Leisure sector. As capital light "Covid beneficiaries", these performed strongly through 2020 and therefore were a drag on ASCoT's relative performance.

The stockmarket's judgement of the prospects for these groups of businesses was swift and severe. What were already wide valuation gaps within the sector expanded, which led to opportunities for further investment. To date, the Managers have seen better value among the holdings in the first group of companies, in some cases taking advantage of equity issues to do so. The outlook is less clear for the bus and rail operators. These have relied heavily on official support and it is unclear how the relationship with government will develop once the pandemic is brought under control.

Balance sheets

The table below sets out the development of the portfolio's exposure to four categories of holding. The categories are determined by the balance sheet position of each company. The estimates underlying the future years are the Managers'.

Portfolio weight	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
2019	24%	49%	22%	4%
2020	20%	34%	31%	15%
2021	28%	40%	28%	4%
2022	32%	45%	22%	1%

*Includes loss-makers, IPOs and lenders

The portfolio came into 2020 with balance sheets in a good position. The decisive general election results at the end of 2019 promised to reduce political uncertainty and to release economic activity. That optimism was overtaken by the onset of Covid-19. Balance sheets that were secure in normal conditions were suddenly challenged in a manner that few had anticipated. That challenge is evident in the much higher proportion of the portfolio exposed to companies with leverage above 2x in 2020 compared with 2019. Existing lenders have eased their terms and government facilities have helped, but the pressure on liquidity and balance sheets has seen numerous equity issues through 2020.

ASCoT supported ten equity issues by its investee companies in the year, with an aggregate sum of £30m committed. The Managers did not back every issue offered, but sought to prioritise those companies that they calculated needed the funds most and where, therefore, the pricing of the deal offered most upside. Compared with their expectations at the time of the interim report, there were few equity issues in the second half of the year. This in part reflects the efforts undertaken by companies to address liquidity issues in other ways and the fact that the year did not develop in quite so bad a fashion as might have been feared amid the first lockdown. Nevertheless, it is likely that 2021 will see further equity issues as companies seek to rebuild working capital as their revenues start the recovery.

In supporting the equity issues and taking advantage of distressed prices, ASCoT benefited from its £130m three year debt facility from Royal Bank of Scotland International. ASCoT came into the Covid-19 period ungeared, which was consistent with its historical practice of gearing in a tactical manner, in response to episodes of economic and financial market stress. Gearing was deployed for only the fourth time in the Company's 30 year history in April. It offered flexibility to add to existing holdings, to participate in equity issues and to buy back shares without having to disturb the underlying portfolio. At the year end, the gearing ratio was 6%.

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Returning to the table above, it can be seen that the portfolio's exposure to high leverage reduces in 2021 and 2022. This reflects the underlying generation of free cash flow by the investee companies – no further equity issues are assumed. The ability of the portfolio's holdings to pay down debt in this fashion underscores their viability and relevance. While cyclical, these companies are well run and resilient – they are not zombies.

Income

Dividends paid by UK companies – large and small – suffered their worst year in the post war era in 2020: the London Business School calculates that aggregate dividends from NSCI (XIC) constituents fell by 52% in real terms. In 2009, which was previously the worst year, the decline was "just" 22%. ASCoT's Revenue Investment Income, again adjusted for special dividends, fell in line with the NSCI (XIC). The table below gives a different perspective on the portfolio's dividend experience, categorising the holdings by their most recent dividend action.

Cut to zero	Other cuts	Unchanged payer	Higher	Nil payer
34	20	3	8	15

The lesson of 2009 was that the dividend cuts were quickly forgotten as growth recommenced in 2010. Given how much further dividends fell in 2020, growth in 2021 is likely but the trajectory of the recovery is important. The early signs are positive and support the decision by ASCoT's Board to raise its final dividend. The latter part of 2020 saw several companies return to the dividend register after having cut to zero amid the deep uncertainty of March and the second quarter. Within the portfolio, three holdings reinstated dividends in the form of a bonus issue of shares and another six reinstated cash dividends. The bonus issues, while dilutive, maintain discipline and provide a bridge to reinstated cash returns to shareholders. The Managers believe that dividends are a crucial component of equity returns and continue their engagement with the boards of investee companies. However, it is important to emphasise that the Managers would not jeopardise a company's viability or ability to undertake profitable investments for the sake of a dividend – ASCoT's portfolio continues to be managed in line with its total return objective.

Corporate activity

It was a tremendously busy year for corporate activity – given the pressure on companies' liquidity it had to be and the portfolio's participation in equity issues has already been quantified above. As the year progressed, M&A picked up strongly. Takeovers of 17 companies within NSCI (XIC) were completed, up from 12 in each of the two previous years. ASCoT held seven of the 17. On top of this, bids for another eight companies were outstanding at the year end. The buyers were a mix of domestic and overseas, with both private equity and other corporates featuring. Deal structures also varied: alongside the full takeover, private equity proved willing to take stakes in companies that retained their public market listing. At one level, this upsurge in interest in small UK quoted companies is surprising – stockmarket valuations would seem to indicate that prospects for these businesses are poor. That, though, is the point: other companies and private equity are keen to take advantage of these extremely low valuations. For the Managers, this opportunism is entirely rational. The real issue is that a standard 30% control premium on prevailing share prices does not represent good value for most companies in the portfolio. It may prove necessary to forgo a one day boost to performance and to push back on approaches for investee companies if the valuations are unrealistic.

Turnover

Portfolio turnover – as defined in the glossary – was 30% in 2020. This is slightly lower than the 33% long term average, but higher than the 24% and 26% rates in the previous two years. In any year, an element of portfolio turnover is unavoidable because of M&A and the annual rebalancing of the NSCI (XIC). This rebalancing sees companies that have grown too large for the index ejected, to be replaced by companies whose share prices have fallen enough to merit inclusion. This process effectively refreshes the value characteristics of the index and ensures there are numerous opportunities for investment. It also creates an element of forced turnover, since, in accordance with the Investment Policy, there are limited circumstances in which ASCoT can hold companies that are not in the NSCI (XIC).

There were two important influences on the rise in turnover during the year. First, Covid-19 and the reaction to it have undoubtedly changed the prospects for some businesses, notwithstanding the overall resilience of the UK's small companies. Where these changes are not fully reflected in share prices, the Managers make sales and look to reinvest in companies with strong upsides. Second, the vaccine news saw the stockmarket rediscover its enthusiasm for some of the cyclical businesses. Some were drastically re-rated close to target valuations, encouraging a rotation of capital to companies with greater upside – the "value roll" – and resulting in a pick-up in turnover from low levels of activity in the second quarter.

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Active share

At the end of December, ASCoT's active share in relation to the NSCI (XIC) was 78%, well above the Managers' target of at least 70%. 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 higher chance of performing differently from the index, for better or worse.

A portfolio analysis

Amid the depths of the year's uncertainty, the Managers categorised the portfolio in order to quantify where the impact on performance had been greatest but, more importantly, to understand where the sources of greatest upside might lie. To be clear, this analysis did not change the underlying investment process. As described in more detail in the 2019 Managers' Report, the process is based on understanding the businesses, determining appropriate target valuations and circulating the portfolio's capital from those companies with low upsides to those with high upsides, the "value" roll. Rather, the analysis focused attention on the most controversial holdings within the portfolio and to challenge the investment cases.

Category	Number	Weight	2020 return	Upside to target	2022 EV/EBITA
Demand beneficiaries	19	26%	+3%	43%	8.4x
Demand cyclicals	25	29%	-15%	46%	7.6x
Supply side beneficiaries	12	13%	-29%	58%	8.0x
Strategic accelerators	10	16%	+0%	84%	7.4x
Structural victims?	13	16%	-39%	75%	8.4x

- *Demand beneficiaries* are companies that either have benefited or are likely to benefit from the pandemic, lockdown conditions and official support measures. These suffered less in share price terms, but this is reflected in higher valuations and lower upsides. Examples include holdings involved in logistics, healthcare businesses, digital platforms and likely beneficiaries of higher infrastructure and housing investment. Given the lower upside, this category is a more likely source of capital.
- *Demand cyclicals* comprises companies whose fortunes are driven by the ebbs and flows of economic activity. This category contains overseas earners, as well as many domestic businesses, such as retailers and leisure companies, whose sales and profits suffered from lockdown conditions. The profitability and share prices of these companies are expected to recover with the economy at large over the next three years.
- *Supply side beneficiaries* are also economically sensitive and have suffered accordingly, but their recovery prospects are likely to be enhanced by an improving competitive position as capital is withdrawn from their industries and as competitors fail. The upside from this category is therefore higher. Within it are some retailers, oil producers and housebuilders.
- *Strategic accelerators* is a somewhat clumsy term for companies that are not letting the crisis go to waste – they are seeking to achieve in one year what might otherwise have taken three. Examples include the accelerated deployment of an online strategy, deep cost restructuring and acquisition integration. In some cases, companies here required additional equity funding, but the upsides from successful execution promise to be substantial. Significant investment has been made in this category through 2020.
- *Structural victims?* is the most controversial category, which includes companies that the stockmarket has determined to be the most fundamentally affected by Covid-19. The category's constituents in aggregate suffered most in 2020 and have received greater scrutiny from the Managers. The business models here have been severely challenged by lockdown, such as the bus companies, doorstep lenders and travel related businesses. Valuations are low and upsides are potentially very attractive, which has led to further investment in the category. However, not all constituents have received incremental capital, since in some cases the future role of government is a significant uncertainty – official support has been important, but the degree of future government involvement and regulation are not yet clear. The question mark in the name of the category acknowledges the controversy but, in view of the valuations, also hints at the potential here should the stockmarket's blunt judgement prove extreme.

Valuations

Consideration of valuations at the present time is complicated by the uncertainty of forecasts as the recession takes its effect on companies' profits. The use of historical profits can adjust for this. At 31 December 2019, the portfolio's historical price earnings ratio (PE) – the current share price divided by historical earnings per share – was 10.0x. This compares with a 30 year average of 11.5x and so, even before the onset of Covid-19, the portfolio offered attractive valuation characteristics in relation to history. During 2020, as pessimism intensified, the PE fell as low as 5.8x, before ending the year at 7.3x as share prices recovered in the fourth quarter. At 5.8x, the PE was in line with its low points over the past 30 years, which coincided with the recessions in the early 1990s and during the financial crisis.

The portfolio's PE of 7.3x at 31 December 2020 was 32% lower than the NSCI (XIC)'s 10.8x. Though the discount has narrowed from over 50% at points through 2020, the year end figure of 32% is much wider than the 30 year average of 13%. The portfolio thus remains much more attractively valued than usual relative to small companies as a whole. The stockmarket would appear to be judging that many businesses simply will not make it to the other side of the recession. This gloomy view is hard to reconcile with the progress made by companies through the year and the measures taken to address liquidity pressures. Indeed, some recognition of this came in November as share prices started to adjust to the vaccine news.

Even without a further rise in share prices, the portfolio's historical PE will rise through 2021 as companies report results in respect of 2020. These results will reflect the impact of lockdown and lower profits. History suggests that share prices can look through the decline in profits to the recovery: the rise in ASCoT's historical PE in the early 1990s from 7x to 19x was driven by a combination of lower historical profits and rising share prices as the stockmarket anticipated recovery. Indeed, low historical valuations have been a useful gauge of likely future returns – unsurprisingly, a lower starting PE today increases the chance of a higher return over five years.

The table below brings forecasts into the valuation analysis for the portfolio and for the tracked universe. The ratio used here is EV/EBITA (enterprise value to earnings before interest, tax and amortisation), which is the Managers' preferred valuation metric. Also shown are the ratios for a subset of growth stocks within the NSCI (XIC), along with those of the rest, which highlights the valuation stretch at the present time.

EV/EBITA	2020	2021	2022	2023
ASCoT	12.9x	9.6x	7.8x	6.4x
Tracked universe (253 stocks)	15.2x	12.1x	10.0x	8.8x
- 42 growth stocks	22.8x	19.4x	16.9x	14.8x
- 211 other stocks	14.0x	11.1x	9.1x	8.0x

The profit forecasts underlying the ratios in the outer years are the Managers' and are established from the bottom-up analysis of the portfolio's holdings. The forecasts will evolve and are influenced by the second lockdown, official support measures and the vaccine news. They are also framed in the context of the likely longer term economic impact of Covid-19, as companies cut costs and as consumer behaviour adjusts to higher unemployment. Consistent with the commentary above, the EV/EBITA ratios imply a robust recovery over the next few years, with aggregate EBITA in 2023 estimated to be back to 2019 levels.

The table below provides characteristics of the portfolio, including the historical PE ratios that were addressed above. It also shows historical dividend yield and dividend cover data, which are higher for the portfolio than for the NSCI (XIC). The portfolio's 2.2% yield reflects part of the deep dividend downturn: the full impact will come through as investee companies with December year ends report their full year results in the first quarter of 2021.

	31 December 2020		31 December 2019	
Portfolio Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**80**	**334**	80	346
Weighted average market capitalisation	**£587m**	**£866m**	£672m	£883m
Price earnings (PE) ratio (historic)	**7.3x**	**10.8x**	10.0x	14.9x
Dividend yield (historic)	**2.2%**	**1.5%**	3.4%	3.2%
Dividend cover	**6.1x**	**6.2x**	2.9x	2.1x

Conclusion & Outlook

It is difficult to do justice to just how extraordinary 2020 was. A normal year would have been defined by the recently decided presidential election, remarkable for the conduct of the incumbent, or, closer to home, by the on-going wrangling over a trade deal with the EU. Both these issues have, of course, been overwhelmed by Covid-19. The stockmarket's verdict on the impact of the coronavirus was abrupt and decisive: the share prices of the strong but cyclical businesses favoured by ASCoT were crushed, while the share prices of the highly valued technology companies benefiting from lockdown conditions rose further. ASCoT's performance suffered accordingly.

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The Managers do not disagree with the stockmarket's differentiation between those two cohorts of companies in the context of the onset of the coronavirus or with the proposition that the prospects of some businesses have been fundamentally changed by the pandemic. However, the degree of the differentiation was harder to understand, unless numerous inherently profitable businesses were going to fail. As government and shareholders offered their support and as management teams took the necessary actions, it became clear that this would not happen. Additionally, the stockmarket's reasoning only went so far: it was fascinated with the ingenuity underlying the technology businesses that benefited from pandemic conditions, but did not appear to contemplate which companies might benefit from the astonishing human endeavour involved in developing the vaccines. From this it was clear that much of the universe of small UK quoted companies, already more attractively valued than usual at the start of the year, was offering exceptional value. This led to ASCoT deploying its debt facility for the fourth time in its 30 years.

The vaccine news went on to challenge the stockmarket's prejudices and, alongside the Brexit trade deal, allowed the year to end in a more encouraging fashion. The recovery is, though, in its early days and the portfolio's valuations remain lower than their long term historical average. This in part reflects lingering uncertainty about Covid-19: as the new year begins, the world is grappling with a new more highly transmissible variant of the virus, which is necessitating incremental lockdown measures in the UK and elsewhere. Nevertheless, the vaccines continue to be rolled out and thus allow markets to contemplate prospects beyond the duration of the current lockdown.

Looking, therefore, to the medium term, an important component in the opportunity offered by ASCoT today is normalisation – of social behaviours, of economic activity, of profits and of share prices. This is not to assert that there will be a full return to what was normal, since the coronavirus will effect permanent change on societies and economies, not least through the acceleration of pre-existing disruptive trends. However, share prices have already adjusted to this new reality and not all that Covid-19 has wrought will necessarily prove lasting. The markets' on-going efforts to distinguish between the truly long term and ephemeral effects of the virus will provide further investment opportunities.

Further out, the impact of normalisation will inevitably fade, which is likely to bring the broader influences on investment style back to the fore. The disinflationary trend of the past 40 years, accelerated by the extraordinary monetary policies imposed after the global financial crisis, has favoured the growth style. It remains to be seen how the world reacts to the shock of the pandemic. The initial collapse in demand is undoubtedly deflationary, but the supply side has also been affected. On top of this, governments appear to be looking to move on from stimulus policies that have relied heavily on monetary actions. Fiscal spending, sometimes under the banner of "modern monetary theory", is being widely heralded as the solution to the coronavirus deficit, low growth and wealth disparity. Even leaving aside the dubious recent record of politicians, fiscal stimulus and a larger role for government usually lead to inflationary pressure.

Despite the complexity of the generational issues that affect the debate between inflation and deflation, the financial markets harbour little doubt. The consensus view is that yesterday's winners will be tomorrow's winners and there is little questioning of taut valuation stretches between and within markets. Government bonds are priced as "return free risks" and most listed companies, in the UK and more broadly, are very lowly valued by the stockmarket.

Accordingly, the upside today from a diversified portfolio of companies selected within a value investment philosophy is much greater than usual. In making this assertion, the Managers are acutely conscious of what ASCoT has endured to get to this point – both in the coronavirus afflicted year of 2020 and over longer periods, exposure to the value investment style has incurred an opportunity cost. However, the sanity check comes through considering the qualities of the underlying companies, which are well run, in command of their balance sheets and able to grow profitably from cycle to cycle. These viable businesses benefit from innovation and provide us with essential products and services – they merit higher valuations from the stockmarket. As 2019 and the final quarter of 2020 showed, the scope for strong total returns is considerable and ASCoT therefore remains geared as 2021 begins. The Managers are optimistic about ASCoT's prospects and have added meaningfully to their shareholdings through 2020.

Aberforth Partners LLP
Managers

29 January 2021

Thirty Largest Investments

As at 31 December 2020

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	Reach	40,460	3.5	UK newspaper publisher
2	Provident Financial	36,589	3.2	Personal credit provider
3	Morgan Advanced Materials	34,665	3.0	Manufacture of carbon & ceramic materials
4	Brewin Dolphin Holdings	30,663	2.7	Private client fund manager
5	Vesuvius	30,234	2.6	Metal flow engineering
6	FirstGroup	28,827	2.5	Bus & rail operator
7	RWS Holdings	28,777	2.5	Software - translation & content management
8	TI Fluid Systems	28,030	2.5	Automotive parts manufacturer
9	Wincanton	27,753	2.4	Logistics
10	Vectura Group	27,696	2.4	Inhaled pharmaceuticals - respiratory specialism
	Top Ten Investments	**313,694**	**27.3**	
11	Redde Northgate	26,888	2.3	Van rental
12	Vitec Group	25,510	2.2	Photographic & broadcast accessories
13	De La Rue	24,663	2.2	Bank note printer
14	Robert Walters	24,007	2.1	Recruitment
15	Forterra	23,726	2.1	Manufacture of bricks
16	DFS Furniture	23,603	2.1	Furniture retailer
17	Just Group	23,352	2.0	Individually underwritten annuities
18	Mitchells & Butlers	23,300	2.0	Operator of restaurants, pubs & bars
19	Eurocell	22,215	1.9	Manufacture of UPVC building products
20	SIG	21,562	1.9	Specialist building products distributor
	Top Twenty Investments	**552,520**	**48.1**	
21	Rank Group	21,385	1.9	Multi-channel gaming operator
22	Spire Healthcare Group	20,881	1.8	Private healthcare provider
23	Keller	20,609	1.8	Ground engineering services
24	Rathbone Brothers	20,088	1.7	Private client fund manager
25	International Personal Finance	19,784	1.7	Home credit provider
26	TT Electronics	19,564	1.7	Sensors & other electronic components
27	Crest Nicholson	19,547	1.7	Housebuilding
28	CMC Markets	19,166	1.7	Financial derivatives dealer
29	McKay Securities	19,045	1.7	Property - London & South East offices
30	Senior	18,450	1.6	Aerospace & automotive engineering
	Top Thirty Investments	**751,039**	**65.4**	
	Other Investments (50)	467,034	40.7	
	Total Investments	**1,218,073**	**106.1**	
	Net Liabilities	(70,143)	(6.1)	
	Total Net Assets	**1,147,930**	**100.0**	

Investments are in Ordinary Shares unless otherwise stated.

Investment Portfolio

As at 31 December 2020

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Oil & Gas Producers	**28,403**	**2.5**	**3.7**
EnQuest	14,040	1.2	
Pharos Energy plc	1,968	0.2	
Premier Oil	12,395	1.1	
Oil Equipment, Services & Distribution	**2,316**	**0.2**	**1.0**
Gulf Marine Services	2,316	0.2	
Chemicals	**13,410**	**1.2**	**1.1**
RHI Magnesita	13,410	1.2	
Industrial Metals & Mining	**–**	**–**	**1.2**
International Ferro Metals[1]	–	–	
Mining	**39,824**	**3.5**	**3.8**
Anglo Pacific Group	14,975	1.3	
Capital	8,307	0.7	
Gem Diamonds	4,877	0.5	
Kenmare Resources	11,665	1.0	
Construction & Materials	**95,522**	**8.3**	**4.8**
Dialight	7,410	0.6	
Eurocell	22,215	1.9	
Forterra	23,726	2.1	
Keller	20,609	1.8	
SIG	21,562	1.9	
Aerospace & Defence	**18,450**	**1.6**	**3.6**
Senior	18,450	1.6	
General Industrials	**–**	**–**	**1.0**
Electronic & Electrical Equipment	**54,229**	**4.7**	**2.6**
Morgan Advanced Materials	34,665	3.0	
TT Electronics	19,564	1.7	
Industrial Engineering	**84,167**	**7.3**	**2.6**
Castings	15,446	1.3	
Vesuvius	30,234	2.6	
Vitec Group	25,510	2.2	
XAAR	12,977	1.2	
Industrial Transportation	**27,753**	**2.4**	**1.8**
Wincanton	27,753	2.4	
Support Services	**153,539**	**13.4**	**10.7**
De La Rue	24,663	2.2	
Essentra	7,936	0.7	
PageGroup	4,373	0.5	
Paypoint	7,439	0.6	
Redde Northgate	26,888	2.3	
Robert Walters	24,007	2.1	
RPS Group	15,331	1.3	
RWS Holdings	28,777	2.5	
Smiths News	7,130	0.6	
Speedy Hire	6,995	0.6	
Automobiles & Parts	**28,030**	**2.5**	**0.9**
TI Fluid Systems	28,030	2.5	
Beverages	**9,312**	**0.8**	**1.3**
C&C Group	9,312	0.8	
Food Producers	**18,897**	**1.6**	**2.5**
Bakkavor Group	17,660	1.5	
R.E.A. Holdings	1,237	0.1	

Investment Portfolio

As at 31 December 2020

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Household Goods & Home Construction	**32,935**	**2.9**	**1.8**
Crest Nicholson	19,547	1.7	
Headlam Group	13,388	1.2	
Leisure Goods	**–**	**–**	**0.1**
Personal Goods	**–**	**–**	**2.0**
Health Care Equipment & Services	**37,293**	**3.2**	**0.9**
Medica Group	16,412	1.4	
Spire Healthcare Group	20,881	1.8	
Pharmaceuticals & Biotechnology	**27,696**	**2.4**	**2.5**
Vectura Group	27,696	2.4	
Food & Drug Retailers	**2,676**	**0.2**	**0.0**
McColl's Retail Group	2,676	0.2	
General Retailers	**73,275**	**6.4**	**3.9**
Card Factory	7,320	0.6	
DFS Furniture	23,603	2.1	
Halfords Group	13,256	1.2	
Lookers[2]	3,933	0.3	
RM	16,496	1.4	
Topps Tiles	8,667	0.8	
Media	**88,496**	**7.7**	**1.7**
Centaur Media	4,783	0.4	
Future	6,923	0.6	
Hyve Group	9,977	0.9	
Reach	40,460	3.5	
STV Group	9,274	0.8	
Wilmington Group	17,079	1.5	
Travel & Leisure	**119,622**	**10.4**	**10.3**
FirstGroup	28,827	2.5	
Go-Ahead Group	6,450	0.6	
Hollywood Bowl	7,134	0.6	
Hostelworld Group	10,869	0.9	
Mitchells & Butlers	23,300	2.0	
Rank Group	21,385	1.9	
Restaurant Group	12,626	1.1	
Stagecoach Group	9,031	0.8	
Fixed Line Telecommunications	**10,375**	**0.9**	**1.8**
Zegona Communications	10,375	0.9	
Mobile Telecommunications	**–**	**–**	**1.1**
Electricity	**–**	**–**	**2.1**
Banks	**–**	**–**	**2.4**
Nonlife Insurance	**12,950**	**1.1**	**1.1**
Conduit Holding	12,950	1.1	
Life Insurance	**27,347**	**2.4**	**0.9**
Hansard Global	3,995	0.4	
Just Group	23,352	2.0	
Real Estate Investment & Services	**13,873**	**1.2**	**5.1**
Foxtons	5,936	0.5	
U and I Group	7,937	0.7	
Real Estate Investment Trusts	**19,045**	**1.7**	**3.9**
McKay Securities	19,045	1.7	

Investment Portfolio

As at 31 December 2020

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Financial Services	**149,805**	**13.1**	**10.3**
Amigo Holdings	1,749	0.2	
Brewin Dolphin Holdings	30,663	2.7	
Charles Stanley Group	15,564	1.4	
City of London Investment Group	6,202	0.5	
CMC Markets	19,166	1.7	
International Personal Finance	19,784	1.7	
Provident Financial	36,589	3.2	
Rathbone Brothers	20,088	1.7	
Software & Computer Services	**28,833**	**2.5**	**4.7**
Alfa Financial Software Holdings	13,811	1.2	
Micro Focus	15,022	1.3	
Technology Hardware & Equipment	**–**	**–**	**0.8**
Investments as shown in the Balance Sheet	**1,218,073**	**106.1**	**100.0**
Net Liabilities	(70,143)	(6.1)	
Total Net Assets	**1,147,930**	**100.0**	**100.0**

[1] Listing cancelled.

[2] Listing suspended.

[3] Reflects the rebalanced index as at 1 January 2021.

Summary of Material Investment Transactions

For the year ended 31 December 2020

Purchases	Cost £'000	Sales	Proceeds £'000
Provident Financial	37,139	Urban&Civic	45,850
Rathbone Brothers	18,470	Future	35,272
SIG	17,603	Huntsworth	35,216
Spire Healthcare Group	15,363	CMC Markets	28,655
Premier Oil	15,105	Grainger	24,321
Medica Group	13,545	Ultra Electronics Holdings	18,975
Conduit Holding	12,966	Speedy Hire	17,429
Crest Nicholson	12,955	Mitchells & Butlers	14,187
Micro Focus	10,199	Keller	10,811
C&C Group	9,214	Essentra	9,589
Mitchells & Butlers	9,152	Hansteen Holdings	7,850
De La Rue	9,053	Low & Bonar	7,801
RHI Magnesita	8,966	Rank Group	7,513
Kenmare Resources	8,802	Devro	6,522
STV Group	7,901	RM	5,818
Card Factory	7,345	Brewin Dolphin Holdings	5,263
Hostelworld Group	7,168	SDL	4,811
Paypoint	6,708	N Brown Group	4,091
Zegona Communications	6,468	RWS Holdings	3,591
Hyve Group	6,261	Halfords Group	3,563
Other Purchases	102,951	Other Sales	18,785
Total Purchases (incl. transaction costs)	**343,334**	**Total Sale Proceeds (incl. transaction costs)**	**315,913**

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2019 NSCI (XIC) Weight %	31 December 2019 Portfolio Weight %	31 December 2019 Portfolio Valuation £'000	Net Purchases/ (Sales)[1] £'000	Net Appreciation/ (Depreciation) £'000	**31 December 2020 Portfolio Valuation £'000**	**31 December 2020 Portfolio Weight %**	**31 December 2020 NSCI (XIC) Weight %**
Oil & Gas	6	4	53,640	16,413	(39,335)	**30,718**	**3**	**5**
Basic Materials	3	2	33,374	20,649	(790)	**53,233**	**5**	**6**
Industrials	29	34	475,367	(10,075)	(31,633)	**433,659**	**36**	**27**
Consumer Goods	9	6	78,967	22,250	(12,041)	**89,176**	**7**	**9**
Health Care	7	2	24,495	29,203	11,291	**64,989**	**5**	**3**
Consumer Services	18	27	393,700	(40,933)	(68,698)	**284,069**	**23**	**16**
Telecommunications	2	–	4,470	6,468	(563)	**10,375**	**1**	**3**
Utilities	1	–	–	–	–	**–**	**–**	**2**
Financials	23	20	283,177	(21,723)	(38,433)	**223,021**	**18**	**5**
Technology	4	5	69,488	5,169	(45,824)	**28,833**	**2**	**24**
	100	100	1,416,678	27,421	(226,026)	**1,218,073**	**100**	**100**

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2019 No. of Companies	31 December 2019 Portfolio Valuation £'000	31 December 2019 Weight %	31 December 2019 NSCI (XIC) Weight %	**31 December 2020 No. of Companies**	**31 December 2020 Portfolio Valuation £'000**	**31 December 2020 Weight %**	**31 December 2020 NSCI (XIC)[2] Weight %**
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	19	520,641	37	66	**19**	**400,518**	**33**	**64**
FTSE SmallCap	41	717,479	51	28	**42**	**627,943**	**52**	**28**
FTSE Fledgling	11	40,352	3	1	**9**	**48,298**	**4**	**1**
Other	9	138,206	9	5	**10**	**141,314**	**11**	**7**
	80	1,416,678	100	100	**80**	**1,218,073**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2021.

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's policy for the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds. The policy is always to seek to appoint the best person for the job. The Board actively promotes equality and fairness for all and there will be no discrimination on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability. The overriding aim of the policy is to seek to ensure that the Board is composed of the best combination of people to promote the success of the Company for Shareholders over the long term. The current Directors have a range of relevant business, financial and asset management skills and experience. Brief biographical details of the members of the Board are shown on page 22.

Environmental, Human Rights, Employee, Social and 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 environmental, social and governance matters is set out within the Corporate Governance Report on page 30.

The Strategic Report, contained on pages 1 to 21, has been approved by the Board of Directors on 29 January 2021 and signed on its behalf by:

Richard Davidson,
Chairman

Governance Report

Board of Directors

Richard Davidson, Chairman

Appointed: 26 January 2019
Shareholding in the Company: 32,000 Ordinary Shares

Richard is 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.

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 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: 2,600 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 Michelmersh Brick Holdings plc, The Crown Estate 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.

Victoria Stewart

Appointed: 1 September 2020
Shareholding in the Company: 4,200 Ordinary Shares

Victoria spent twenty two years as a fund manager, mostly with Royal London Asset Management. She was the sole manager of the Royal London UK Smaller Companies Fund from its inception in 2007, leaving in 2016 and taking up a non-executive director role with Secure Trust Bank PLC where she is chairman of the remuneration committee. Victoria has considerable experience of managing and investing in various investment vehicles and mid and small-cap listed companies and has a strong working knowledge of performance analysis and corporate governance. Victoria is also a non-executive director of Artemis Alpha Fund plc and JPMorgan Claverhouse Investment Trust plc.

Martin Warner

Appointed: 1 March 2018
Shareholding in the Company: 7,000 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.

Directors' Report

The Directors submit their Annual Report and Financial Statements for the year ended 31 December 2020.

Directors

The Directors of the Company during the financial year are listed on page 35. 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.

Return and Dividends

The total return attributable to shareholders for the year ended 31 December 2020 amounted to a loss of £219,198,000 (2019: profit of £299,510,000). The Net Asset Value per Ordinary Share at 31 December 2020 was 1,292.38p (2019: 1,570.15p).

Your Board is pleased to declare a final dividend of 22.90p which produces total dividends for the year of 33.30p (total of £29,644,000). The final dividend, subject to Shareholder approval, will be paid on 9 March 2021 to Shareholders on the register at the close of business on 12 February 2021.

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 and deployed in accordance with a value investment philosophy.

At 31 December 2020, funds under management were £1.8 billion, of which 64% was represented by investment trusts, 7% by a unit trust and 29% by segregated charity funds. All these funds are managed in line with the value philosophy applied to the Company's portfolio. The Managers believe that diseconomies of scale come with managing too much money within an asset class such as small UK quoted companies. Accordingly, they impose a ceiling on funds under management, which in normal circumstances would be equivalent to 1.5% of the total market capitalisation of the NSCI (XIC) benchmark. Consistent with this, current capacity is circa £400 million of funds under management.

The firm is wholly owned by seven partners. Six are investment managers, with the investment team completed by one other who is not currently a partner. Analytical responsibilities are divided by stockmarket sector among the investment managers, but investment decisions and portfolio management are undertaken on a collegiate basis by the full team. The investment managers are remunerated on the basis of the success of the firm and its funds as a whole. Alignment with the Company's Shareholders is further enhanced by the team's meaningful investments in the Company's equity.

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 £7,246,000 in the year ended 31 December 2020 (2019: £8,869,000).

The secretarial fee amounted to £89,538 (excluding VAT) during 2020 (2019: £87,569, 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.

NatWest Trustee & Depositary Services Limited receive an annual fee, payable quarterly in arrears, of 0.0085% of the net assets of the Company, being £108,000 for the year ended 31 December 2020 (2019: £119,000) 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 2020, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 88,823,066 were issued and fully paid. During the year, 710,000 shares (0.8% of the Company's issued share capital with a nominal value of £7,100) were bought back and cancelled at a total cost of £6,090,000. 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 2023.

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. This assessment included the impact on the Company of Covid-19. The Committee reported the results of its assessment to the Board.

The Company's business activities, capital structure and borrowing facilities, 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 and funding flexibility can typically be achieved through the use of the borrowing facilities which are described in notes 12 and 13 to the financial statements. 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 2020 and 29 January 2021. The total number of voting rights amounted to 88,823,066 at 31 December 2020. Since 31 December 2020, 100,000 shares have been bought back and cancelled and therefore the total number of votes at 29 January 2021 amounted to 88,723,066.

Notified interests	Percentage of Voting Rights Held
Brewin Dolphin Limited	10.0%
Investec Wealth & Investment Limited	8.9%
Rathbone Brothers plc	5.9%

Annual General Meeting

The AGM will be held on 2 March 2021 at 2.30 p.m. at 14 Melville Street, Edinburgh EH3 7NS. As explained in the Chairman's Statement owing to restrictions caused by Covid-19, this will be a closed meeting and Shareholders will not be able to attend in person. Shareholders are encouraged to submit their votes by proxy in advance of the meeting. The following special resolution will be proposed at the AGM.

Purchase of Own Shares (Special Resolution)

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 2022. 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 24 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 24 and 25.
- 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 27 and 28.
- Amendment of the Company's Articles of Association and powers to issue shares on a non pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by shareholders.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

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 and is not, therefore, obliged to make a human trafficking statement. The Company has no employees and its supply chain consists mainly of professional advisers so is considered to be low risk in relation to this matter.

Criminal Finances Act 2017

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

Post Balance Sheet Events

Since 31 December 2020, there are no post balance sheet events which would require adjustment of or disclosure in the financial statements.

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.

Approved and authorised for issue by the Board of Directors
Richard Davidson
Chairman

29 January 2021

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and provisions of the 2019 Association of Investment Companies Code of Corporate Governance ("the AIC Code"). The AIC Code addresses all the principles and provisions set out in the UK Corporate Governance Code which applies for the year ended 31 December 2020, as well as setting out additional principles and provisions on issues that are of specific relevance to investment trusts. The Board considers that reporting in accordance with the principles and provisions of the AIC Code provides more relevant and comprehensive information to shareholders. The AIC Code is available on the AIC website at www.theaic.co.uk. This report forms part of the Directors' Report on pages 23 to 26.

Compliance

Throughout the year ended 31 December 2020 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 Code, 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 2020, the Board comprised six non-executive Directors, of whom Richard Davidson 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. During the year Paula Hay-Plumb was appointed to the board of Michelmersh Brick Holdings plc as a non executive director and this represents a cross directorship with Martin Warner who is non executive chairman of Michelmersh Brick Holdings plc. The Board, excluding these two Directors, considered the cross directorship and was satisfied that it did not affect the judgement or independence of either Director. All Directors are presently considered to be independent. All Directors retire at the AGM each year and, if appropriate and continuing, 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 trusts and open-ended funds;
- 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:

January
- Consider Final & Special Dividend
- Approval of the Annual Report
- Review of Gearing

April
- Shareholder Communication
- Impact of Covid-19

July
- Consider Interim Dividend
- Approval of Half Yearly Report
- Review of significant interests
- Detailed review of Investment Trust Peer Group

October
- Internal Control Review
- Corporate Governance Review including the Managers' policy on stewardship
- Review Managers' continued appointment and remuneration
- Board & Committee Evaluation
- Board Composition
- Review of Directors' Fees
- Annual Strategy Review

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	Board Eligible to attend	Board Attended	Audit Committee Eligible to attend	Audit Committee Attended
Richard Davidson, Chairman	9	9	–	–
Paula Hay-Plumb	9	9	3	3
Julia Le Blan	9	9	3	3
Richard Rae	9	9	3	3
Victoria Stewart (appointed 1 September 2020)	3	3	–	–
Martin Warner	9	9	–	–

There has been no change to the Directors between 31 December 2020 and 29 January 2021.

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 but its diversity policy is described on page 21.

The Board established a Committee in 2020, chaired by Richard Davidson, for the purpose of appointing a new Director. External search consultants, Nurole, a firm having no other connection with the Company or its Directors, were appointed to conduct a full search. The Committee held meetings with a shortlist of candidates and the process concluded with Victoria Stewart being appointed a Director with effect from 1 September 2020.

The Board believes in regular refreshment of the Board and in the benefits of having a diverse range of experience, skills, length of service and backgrounds. The Board is also of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company or, indeed, its chairman. Continuity and experience can add significantly to the strength of the Board especially in times of market turbulence. Nevertheless, the Board's policy is that in normal circumstances the Chairman and Directors are expected to serve for a nine-year term, though this may be adjusted for reasons of flexibility. Richard Rae is retiring from the Board at the 2021 AGM having been a Director for nine years and all the continuing Directors have served for fewer than nine years.

Board performance and re-appointment of Directors

The Board undertakes a formal annual assessment of Directors and their collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Board conducted this internal review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which were discussed by the Board in

October 2020, 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. The Board has 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.

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 2020 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 interests conflicting with those of the Company 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. As part of its risk process, the Board seeks to identify emerging risks to ensure that they are effectively managed as they develop and are recorded in the 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. The principal risks faced by the Company and Board's approach to managing these risks are set out on page 6. 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. Further information on internal control and risks is contained in the Audit Committee Report on page 33. 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 on 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, richard.davidson@aberforth.co.uk. During the year, the Chairman was in contact with some Shareholders to discuss a range of topics and provided feedback to the Board.

All Shareholders have the opportunity to vote at and in normal circumstances attend the AGM where the Directors and Managers are available to discuss important issues affecting the Company. Proxy voting figures are available at the AGM and 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.

Environmental, Social and Governance Matters

The Board expects good standards at the companies in which the Company is invested. In this regard, it is encouraged that the Managers consistently and proactively engage with investee companies on environmental, social and governance (ESG) matters. It is recognised that these can be material to the investment case and therefore to the long term success of the Company. The Managers believe that sound ESG policies make good business sense and make assessments of these factors in their company valuations and investment decisions. The Managers do not exclude companies from their investment universe purely on the grounds of ESG considerations. Instead, the Managers reflect these considerations in their target valuations for companies and adopt a positive approach, engaging with company directors with the aim of improving operations, culture and, ultimately, valuation. The Board has been encouraged by Aberforth's increasing emphasis on ESG matters, which reflects broader society's increased awareness and its implications for companies' actual and potential valuations.

UK Stewardship Code and UN Principles for Responsible Investment

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 Managers have embraced the principles and been early adopters of the UK Stewardship Code 2020, publishing their stewardship policy in June 2020. The Managers have also published supporting documents detailing their Investment Philosophy, Engagement and Voting framework, and providing examples of Engagement and Voting. The Managers are a signatory to, and participate in, the annual UNPRI assessment, the results of which are available within the 'About Aberforth' section of the Managers' website, at www.aberforth.co.uk. The Board was pleased to see the positive results in 2020.

The Board has reviewed, and endorses, the Managers' Stewardship Policy, which is available within the 'About Aberforth' 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 Board supports the Managers' voting philosophy, which treats clients as part owners of the underlying companies. Exercising the rights, they vote on all matters at all meetings. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests, which specifically includes consideration of environmental and social matters. 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. As part of the Managers' early adoption of the Stewardship Code 2020, they have published their voting and engagement framework as well as examples of voting and engagement undertaken.

By Order of the Board
Richard Davidson
Chairman

29 January 2021

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. The Committee members during the year were Julia Le Blan (Chair), Richard Rae and Paula Hay-Plumb. The current members' biographies can be found on page 22. 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:

- reviewing the Company's internal financial controls and risk management systems, identifying principal risks and monitoring the mitigating controls that have been established;
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust that is listed on the London Stock Exchange;
- reviewing the Company's annual and interim financial statements and any formal announcements on the Company's financial performance, 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 and remuneration, 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

January

- Annual Report including judgemental areas, going concern, viability statement, letter of representation, expense analysis and Annual Report announcement
- Custodian's Controls Report update
- Investment Trust Status
- Key Risks of the Company
- Provision of non-audit services, including taxation compliance services
- Basis of Management Fee allocation (every three years)
- Audit meeting/ evaluation of the audit including auditor independence

April

- Meetings to be called if required

July

- Half Yearly Report including judgemental areas, going concern, expense analysis and Half Yearly Report announcement
- Audit Fees
- Key Risks of the Company
- Investment Trust Status
- Committee's Terms of Reference

October

- Corporate Governance Compliance
- Evaluation of the Committee
- Audit Plan
- Auditor Plan, together with the Terms of Engagement
- Cyber Security Measures (Aberforth Partners)
- Key Risks of the Company
- Investment Trust Status
- Internal Controls Review including reports from the Managers and other third parties

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 year to 31 December 2020 the Committee has focused on the areas described below.

Audit Committee Report

Matters Considered and Action taken by the Committee

Financial Reporting

In July 2020, 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 2021, 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 2020. 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 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 2020	*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. Ownership of investments is verified through reconciliations by the Managers to Custodian records. 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 special dividends	*The Committee reviewed the Managers' control framework, which includes controls over revenue recognition. The Committee reviewed actual and forecast revenue entitlement at each meeting. The accounting treatment of all special dividends is reviewed by the Committee and the external auditor.*
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.*
Impact of Covid-19	*The Committee considered the impact of Covid-19 on the Company's financial statements and the references in the Annual Report, including those contained in the 'Principal Risks', 'Going Concern' and 'Managers' Report' sections.*
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 Managers. The external auditors have tested the management fees as part of their audit.*
Impact of Brexit	*The Committee considered the references in the Annual Report to the impact of Brexit on the Company, noting those contained in the 'Principal Risks' and 'Managers' Report' sections.*

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. Both reports included assessment of the impact of Covid-19 on the Company. The content of the investment portfolio, trading activity, portfolio diversification and the existing borrowing facilities 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 main factors that led to this conclusion were the portfolio composition and the relatively low levels of cash required to continue operating the Company.

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 6. In January 2021, the Committee reviewed a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' funds, the borrowing facilities, 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 and emerging 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, including: adding the impact of Covid-19 in market, investment performance and operational risks; separating out market risk as a principal risk; adding reference to climate change in principal market risks; and updating emerging risks. The Committee believes the Matrix continues to reflect accurately the Company's principal risks. These risks are detailed on page 6.

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 October, 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 was first appointed audit partner for the 2018 audit. Deloitte presented its audit plan to the Committee in October in advance of the 2020 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 £27,000, excluding VAT, for the year (2019: £22,100) and the Committee considered the increase with general audit market trends. There were no non-audit activities carried out by Deloitte.

Evaluation of the Auditor

Following the completion of the audit in January 2021, 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 2021 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 online evaluation questionnaire, was undertaken during the year. The outcome was positive with no significant concerns expressed. The Committee has agreed to utilise external facilitators every three years.

Julia Le Blan
Audit Committee Chair
29 January 2021

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 2020. 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 the Directors' remuneration policy. The 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, determines 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 year ended 31 December 2020 and year ending 31 December 2021. There is no change to Directors' fees for the year ending 2021.

	Annual Fees 2021 £	Annual Fees 2020 £
Chairman of the Company	**37,425**	37,425
Director and Chair of the Audit Committee	**30,950**	30,950
Director and Member of the Audit Committee	**26,450**	26,450
Director	**24,950**	24,950

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 38.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company and is subject to annual re-election by Shareholders. 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
Richard Davidson, *Chairman*	26 January 2019	AGM 2021
Paula Hay-Plumb	29 January 2014	AGM 2021
Julia Le Blan	29 January 2014	AGM 2021
Richard Rae	26 January 2012	n/a
Victoria Stewart	1 September 2020	AGM 2021
Martin Warner	1 March 2018	AGM 2021

Directors' Fees (Audited)

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

Director	**Fees (Total Emoluments) 2020 £**	Fees (Total Emoluments) 2019 £
Richard Davidson, Chairman (appointed 26 January 2019)	**37,425**	32,966
Julia Le Blan, Chair of the Audit Committee	**30,950**	30,500
Paula Hay-Plumb	**26,450**	26,000
Richard Rae	**26,450**	26,000
Victoria Stewart (appointed 1 September 2020)	**8,288**	–
Paul Trickett, Chairman (retired 28 February 2019)	**–**	5,940
Martin Warner	**24,950**	24,500
	154,513	145,906

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.

	2020 £'000	2019 £'000	Absolute change £'000
Total Directors' remuneration	**155**	146	9
Total dividends in respect of that year	**29,644**	32,287	(2,643)
Total share buy-back consideration	**6,090**	12,622	(6,532)

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests (Audited)

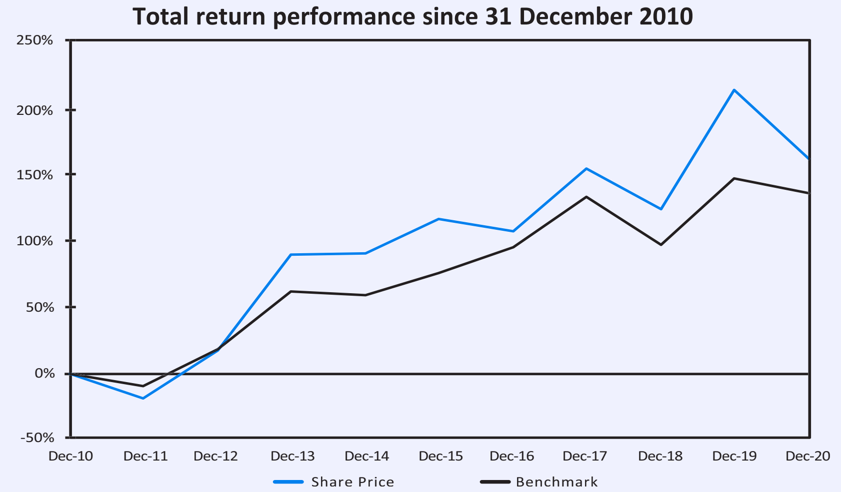
The Directors who held office at any time during the year ended 31 December 2020 and their interests in the Shares of the Company as at that date and 1 January 2020 were as follows.

		Ordinary Shares	
Directors	Nature of Interest	**31 December 2020**	1 January 2020
Richard Davidson, Chairman	Beneficial	32,000	20,350
Julia Le Blan	Beneficial	3,000	3,000
Paula Hay-Plumb	Beneficial	2,600	2,600
Richard Rae	Beneficial	4,000	4,000
Victoria Stewart (appointed 1 September 2020)	Beneficial	4,200	n/a
Martin Warner	Beneficial	2,000	2,000
	Non Beneficial	5,000	5,000

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2020 and 29 January 2021. 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 3 March 2020, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Report: of the 50,745,770 proxy votes, 48,853,980 were cast in favour, 10,039 were cast against, 42,982 were discretionary and 1,838,769 votes were withheld. At the Annual General Meeting held on 3 March 2020, Shareholders, on a show of hands, passed the resolution to approve the Directors' Remuneration Policy: of the proxy votes cast, 48,850,679 votes were cast in favour, 12,390 were cast against , 43,932 were discretionary and 1,838,769 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 2010. 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.

During 2020, the Company's performance suffered from the impact of Covid-19. The main influences on performance over the year are described in the Managers' Report.

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 2020:

(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

Richard Davidson
Chairman

29 January 2021

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 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 position and performance, business model and strategy.

On behalf of the Board
Richard Davidson
Chairman

29 January 2021

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 2020 and of its loss 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 October 2019 “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;
- the reconciliation of movement 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, United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies (‘SORP’) in October 2019 “Financial Statements of Investment Trust Companies and Venture Capital Trusts”.

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 listed investments
Materiality	The materiality that we used in the current year was £11.48m (2019: £14.06m) 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	There has been no significant changes to our approach.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the Company’s ability to continue to adopt the going concern basis of accounting included:

- Reviewing the holdings in the investment portfolio to assess its liquidity and any potential impairment, including the results of management’s stress testing;
- Assessing the Covid-19 impact considerations prepared as part of management’s going concern assessment;
- Evaluating Management’s revenue account projections for the subsequent 12 month period (from Jan 2021) for reasonableness;
- Assessing whether the Company has complied with the covenants in place on a monthly basis for its borrowings facility; and
- Assessing whether the latest continuation vote has taken place and whether it has been favourable for the continuation of the Company.

Independent Auditor's Report

Conclusions relating to going concern (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 listed investments	
Key audit matter description	The quoted investments held by the Company, £1,218m (2019: £1,417m) are key to its performance and account for the majority of the total assets 99.7% at 31 December 2020 (2019: 99.8%). Please see Accounting Policy 1b and note 10. Investments listed on recognised exchanges are valued at the closing bid price at the year end. There is a risk that the investments disclosed in the financial statements may not represent the property of the Company. As they are a key driver of the Company's performance and due to their significance to the net asset value there is a risk that these investments might not be correctly valued. 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 valuation and ownership of the investment portfolio at 31 December 2020: • obtained an understanding of the relevant controls over valuation and ownership of listed investments; • agreed 100% of the Company's investment portfolio at the year end to confirmations received directly from the custodian; • independently agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an external pricing source; • evaluating management judgements regarding the split between capital and revenue income and investment hierarchy levels; and • examined the internal controls report over the custodian, as it applies to custody and attended the Audit Committee meeting at which the custodian controls report was evaluated to enhance our understanding of the relevant controls at the custodian. In addition to the above, we also tested the recording of a sample of purchases and sales of listed investments and assessed the completeness and appropriateness of disclosures in relation to fair value measurement and liquidity risk. We also considered the impact of Covid-19 on the price of investments through the year.
Key observations	Based on the work performed we concluded that the valuation and ownership of listed investments is appropriate.

Independent Auditor’s Report

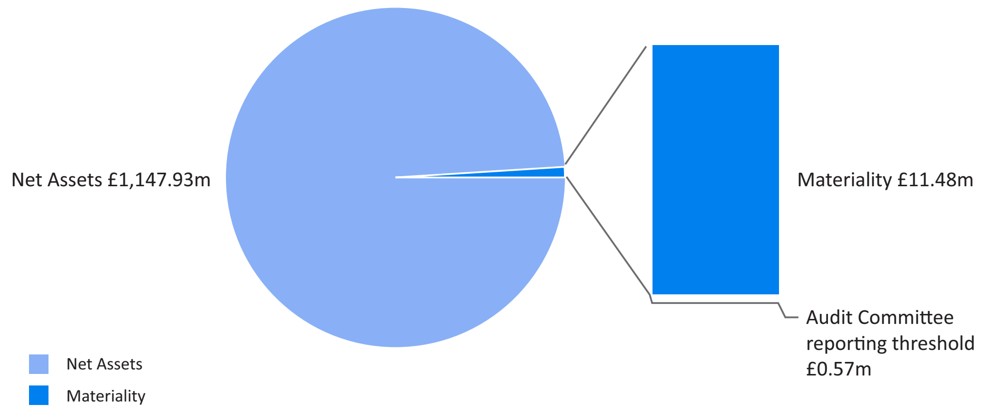
Our application of materiality

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	£11.48m (2019: £14.06m)
Basis of determining materiality	1% (2019: 1%) of net assets
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is the main focus for investors and is a key driver of shareholder value. Additionally, it is the standard industry benchmark for materiality for investment trusts.



Performance Materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered factors including:

- the quality of the control environment over financial reporting; and
- there have been no uncorrected misstatements noted in our audits during prior years.

Error Reporting Threshold

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £574,000 (2019: £702,900), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control and assessing the risks of material misstatement 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 administrator to the extent relevant to our audit.

Independent Auditor's Report

Other information

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

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

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

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

We have nothing to report in this regard.

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.

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' and the Managers remuneration and performance targets;
- results of our enquiries of the Managers and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

Identifying and assessing potential risks related to irregularities (continued)

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the valuation and ownership of quoted investments. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and UK tax legislation.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. This included the requirements of the United Kingdom's Financial Conduct Authority (FCA).

Audit response to risks identified

As a result of performing the above, we identified the valuation and ownership of listed investments as a key audit matter related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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; 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.

Corporate Governance Statement

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

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

- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 24;
- the directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 6 and 24;
- the directors' statement on fair, balanced and understandable set out on page 37;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 29;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 29; and
- the section describing the work of the audit committee set out on page 31.

Independent Auditor's Report

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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 which we are required to address

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders 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 8 years, covering the years ending 31 December 2013 to 31 December 2020.

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
29 January 2021

(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 2020

	Note	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Net (losses)/gains on investments	10	**–**	**(223,279)**	**(223,279)**	–	269,836	269,836
Investment income	3	**15,656**	**–**	**15,656**	42,478	295	42,773
Investment management fee	4	**(2,717)**	**(4,529)**	**(7,246)**	(3,326)	(5,543)	(8,869)
Portfolio transaction costs	5	**–**	**(2,747)**	**(2,747)**	–	(2,595)	(2,595)
Other expenses	5	**(731)**	**–**	**(731)**	(698)	–	(698)
Net return before finance costs and tax		**12,208**	**(230,555)**	**(218,347)**	38,454	261,993	300,447
Finance costs	6	**(301)**	**(502)**	**(803)**	(351)	(586)	(937)
Return on ordinary activities before tax		**11,907**	**(231,057)**	**(219,150)**	38,103	261,407	299,510
Tax on ordinary activities	7	**(48)**	**–**	**(48)**	–	–	–
Return attributable to equity shareholders		**11,859**	**(231,057)**	**(219,198)**	38,103	261,407	299,510
Returns per Ordinary Share	9	**13.28p**	**(258.78)p**	**(245.50)p**	42.26p	289.96p	332.22p

The Board declared on 29 January 2021 a final dividend of 22.90p per Ordinary Share. The Board declared on 28 July 2020 an interim dividend of 10.40p 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 2020

	Note	**Share capital £'000**	**Capital redemption reserve £'000**	**Special reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
Balance as at 31 December 2019		895	93	102,753	1,210,620	91,439	1,405,800
Return on ordinary activities after taxation		–	–	–	(231,057)	11,859	(219,198)
Equity dividends paid	8	–	–	–	–	(32,582)	(32,582)
Purchase of Ordinary Shares	14	(7)	7	(6,090)	–	–	(6,090)
Balance as at 31 December 2020		**888**	**100**	**96,663**	**979,563**	**70,716**	**1,147,930**

For the year ended 31 December 2019

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2018		906	82	115,375	949,213	88,160	1,153,736
Return on ordinary activities after taxation		–	–	–	261,407	38,103	299,510
Equity dividends paid	8	–	–	–	–	(34,824)	(34,824)
Purchase of Ordinary Shares	14	(11)	11	(12,622)	–	–	(12,622)
Balance as at 31 December 2019		895	93	102,753	1,210,620	91,439	1,405,800

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Investments at fair value through profit or loss	10	**1,218,073**	1,416,678
Current assets			
Debtors	11	**968**	2,809
Cash at bank		**2,963**	187
		3,931	2,996
Creditors (amounts falling due within one year)	12	**(1,231)**	(13,874)
Net current assets/(liabilities)		**2,700**	(10,878)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,220,773**	1,405,800
Creditors (amounts falling due after more than one year)	13	**(72,843)**	–
TOTAL NET ASSETS		**1,147,930**	1,405,800
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital	14	**888**	895
Capital redemption reserve	15	**100**	93
Special reserve	15	**96,663**	102,753
Capital reserve	15	**979,563**	1,210,620
Revenue reserve	15	**70,716**	91,439
TOTAL SHAREHOLDERS' FUNDS		**1,147,930**	1,405,800
Net Asset Value per Ordinary Share	16	**1,292.38p**	1,570.15p

Approved and authorised for issue by the Board of Directors on 29 January 2021 and signed on its behalf by:

Richard Davidson,
Chairman

Company Number: SC126524
Registered in Scotland

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Net revenue before finance costs and tax		**12,208**	38,454
Scrip dividends received	3	**(904)**	–
Taxation	7	**(48)**	–
Receipt of special dividends taken to capital	3	**–**	295
Investment management fee charged to capital	4	**(4,529)**	(5,543)
Decrease in debtors		**1,841**	421
Decrease in other creditors		**–**	(13)
Net cash inflow from operating activities		**8,568**	33,614
Investing activities			
Purchases of investments		**(341,319)**	(300,568)
Sales of investments		**315,913**	319,296
Cash (outflow)/inflow from investing activities		**(25,406)**	18,728
Financing activities			
Purchases of Ordinary Shares	14	**(6,090)**	(12,622)
Equity dividends paid	8	**(32,582)**	(34,824)
Interest and fees paid	17	**(964)**	(1,018)
Net drawdown/(repayment) of bank debt facilities (before any costs)	18	**59,250**	(3,750)
Cash inflow/(outflow) from financing activities		**19,614**	(52,214)
Change in cash during the period		**2,776**	128
Cash at the start of the period		**187**	59
Cash at the end of the period		**2,963**	187

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 October 2019, applicable for accounting periods beginning on or after 1 January 2019. 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 Directors' assessment of the basis of going concern is described on page 24. 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 critical accounting judgements or significant sources of estimation uncertainty 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 received its dividends in the form of additional shares rather than in cash, an amount equivalent to the cash dividend forgone 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 £130 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 7, 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 61.

3 Income

		2020			2019	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Income from investments						
UK dividends	**13,830**	**–**	**13,830**	41,162	295	41,457
Scrip dividends	**904**	**–**	**904**	–	–	–
Overseas dividends	**857**	**–**	**857**	622	–	622
Property income distributions	**65**	**–**	**65**	694	–	694
Total income	**15,656**	**–**	**15,656**	42,478	295	42,773

During the year the Company received special dividends amounting to £1,714,000 (2019: £2,785,000), of which £nil (2019: £295,000) were considered a return of capital by the investee company.

4 Investment Management Fee

		2020			2019	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**2,717**	**4,529**	**7,246**	3,326	5,543	8,869

Details of the investment management contract can be found on page 23.

5 Other Expenses

	2020 £'000	2019 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**155**	146
Depositary fee	**108**	119
Secretarial services	**107**	105
Registrar fee	**81**	57
FCA and LSE listing fees	**70**	70
Custody and other bank charges	**48**	59
Auditor's fee – audit of the financial statements	**32**	26
– for non-audit services	**–**	–
Legal fees	**20**	5
AIC fee	**22**	22
Directors' and Officers' liability insurance	**10**	11
Other expenses	**78**	78
	731	698

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:

	2020 £'000	2019 £'000
Analysis of total purchases		
Purchase consideration before expenses	**341,169**	298,590
Commissions	**633**	529
Taxes	**1,532**	1,449
Total purchase expenses	**2,165**	1,978
Total purchase consideration	**343,334**	300,568
Analysis of total sales		
Sales consideration before expenses	**316,495**	319,913
Commissions	**(582)**	(617)
Total sale proceeds net of expenses	**315,913**	319,296
Total expenses incurred in acquiring/disposing of investments	**2,747**	2,595

6 Finance Costs

		2020			2019	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	**275**	**459**	**734**	328	547	875
Amortisation of bank debt facility costs	**26**	**43**	**69**	23	39	62
	301	**502**	**803**	351	586	937

7 Taxation

Analysis of tax charged on return on ordinary activities		**2020**			2019	
	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.

Total returns on ordinary activities before tax	**11,907**	**(231,057)**	**(219,150)**	38,103	261,407	299,510
Corporation tax at 19% (2019: 19%)	**2,262**	**(43,901)**	**(41,639)**	7,240	49,667	56,907
Adjusted for the effects of:						
Non-taxable UK dividend income	**(2,628)**	**–**	**(2,628)**	(7,821)	(56)	(7,877)
Non-taxable overseas dividend income	**(139)**	**–**	**(139)**	(118)	–	(118)
Expenses not deductible for tax purposes	**–**	**522**	**522**	–	493	493
Excess expenses for which no relief has been taken	**505**	**956**	**1,461**	699	1,165	1,864
Non-taxable capital losses/(gains)	**–**	**42,423**	**42,423**	–	(51,269)	(51,269)
UK corporation tax charge for the year	**–**	**–**	**–**	–	–	–
Irrecoverable overseas taxation suffered	**48**	**–**	**48**	–	–	–
Total tax charge for the year	**48**	**–**	**48**	–	–	–

The Company has not recognised a potential asset for deferred tax of £27,913,000 (2019: £23,494,000) 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 potential deferred tax asset has been calculated using a corporation tax rate of 19% (2019: 17%).

Notes to the Financial Statements

8 Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2019 of 22.00p (2018: 20.75p) paid on 6 March 2020	**19,697**	18,795
Special dividend for the year ended 31 December 2019 of 4.00p (2018: 7.75p) paid on 6 March 2020	**3,581**	7,020
Interim dividend for the year ended 31 December 2020 of 10.40p (2019: 10.00p) paid on 28 August 2020	**9,304**	9,009
	32,582	34,824
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2020 of 22.90p (2019: final dividend of 22.00p) payable on 9 March 2021	**20,340**	19,967
Special dividend for year ended 31 December 2020 of nil (2019: 4.00p)	**–**	3,581
	20,340	23,278

The final dividends for 2020 and 2019 and the special dividend for 2019 have not been included as liabilities in the financial statements.

9 Returns per Ordinary Share

	2020	2019
The returns per Ordinary Share are based on:		
Returns attributable to Ordinary Shareholders	**£(219,198,000)**	£299,510,000
Weighted average number of shares in issue during the year	**89,285,989**	90,154,625
Return per Ordinary Share	**(245.50)p**	332.22p

There are no dilutive or potentially dilutive shares in issue.

10 Investments

	2020 £'000	2019 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,416,678**	1,168,165
Opening fair value adjustment	**35,117**	212,901
Opening book cost	**1,451,795**	1,381,066
Purchases at cost	**341,169**	298,590
Sale proceeds	**(316,495)**	(319,913)
Realised (losses)/gains on sales	**(25,932)**	92,052
Closing book cost	**1,450,537**	1,451,795
Closing fair value adjustment	**(232,464)**	(35,117)
Closing fair value	**1,218,073**	1,416,678

All investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated on pages 18 to 20.

	2020 £'000	2019 £'000
Gains/(losses) on investments:		
Net realised (losses)/gains on sales	**(25,932)**	92,052
Movement in fair value adjustment	**(197,347)**	177,784
Net (losses)/gains on investments	**(223,279)**	269,836

The company received £316,495,000 (2019: £319,913,000) from investments sold in the year. The book cost of these investments was £342,427,000 (2019: £227,861,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

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 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	**1,214,140**	**–**	**3,933**	**1,218,073**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,214,140**	**–**	**3,933**	**1,218,073**

During the year, an investment with a book cost of £16,538,000 was transferred from Level 1 to Level 3 as its listing in the market was suspended. This investment, Lookers, has been valued at its suspension price. The shares were relisted on 29 January 2021.

As at 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,416,678	–	–	1,416,678
Unlisted equities	–	–	–	–
Total financial asset investments	1,416,678	–	–	1,416,678

11 Debtors

	2020 £'000	2019 £'000
Investment income receivable	**939**	2,777
Other debtors	**29**	32
Total	**968**	2,809

12 Creditors: Amounts falling due within one year

	2020 £'000	2019 £'000
Amounts due to brokers	**1,111**	–
Other creditors	**120**	153
Bank debt facility	**–**	13,750
Less: Unamortised costs on bank debt facility	**–**	(29)
Total	**1,231**	13,874

On 14 May 2020, the Company took out an uncommitted overdraft credit facility of £20 million with The Northern Trust Company. The interest rate applying to overdrawn balances is 1.25% over the UK Base Rate. In addition, an arrangement fee of £15,000 was incurred in respect of the facility. Amounts drawn in 2019 relate to the bank debt facility referred to in Note 13 below.

13 Creditors: Amounts falling due after more than one year

	2020 £'000	2019 £'000
Bank debt facility	**73,000**	–
Less: Unamortised costs on bank debt facility	**(157)**	–
Total	**72,843**	–

On 14 May 2020, the Company entered into a three year unsecured £130 million Facility Agreement with The Royal Bank of Scotland International Limited. A 0.15% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 0.80% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate ranging from 0.3% to 0.5%, depending on the level of utilisation. This new facility replaced the three year unsecured £125 million Facility Agreement with The Royal Bank of Scotland International Limited which was on comparable terms.

The main covenant under the facility requires that, every month, total borrowings shall not exceed 25% of the Company's total adjusted gross assets. There were no breaches of the covenants during the year. As at 31 December 2020, total borrowings represented 6.0% of total adjusted gross assets (as defined by Facility Agreement). The current facility is due to expire on 15 June 2023.

Notes to the Financial Statements

14 Share Capital

	2020		2019	
	No. of Shares	**£'000**	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**88,823,066**	**888**	89,533,066	895

During the year, the Company bought back and cancelled 710,000 shares (2019: 1,047,245) at a total cost of £6,090,000 (2019: £12,622,000). During the period 1 January to 29 January 2021, 100,000 shares have been bought back for cancellation.

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 2018	**906**	**82**	**115,375**	**949,213**	**88,160**	**1,153,736**
Net gains on sale of investments	–	–	–	92,052	–	92,052
Movement in fair value adjustment	–	–	–	177,784	–	177,784
Cost of investment transactions	–	–	–	(2,595)	–	(2,595)
Management fees charged to capital	–	–	–	(5,543)	–	(5,543)
Finance costs charged to capital	–	–	–	(586)	–	(586)
Special dividends taken to capital	–	–	–	295	–	295
Revenue return attributable to equity shareholders	–	–	–	–	38,103	38,103
Equity dividends paid	–	–	–	–	(34,824)	(34,824)
Purchase of Ordinary Shares	(11)	11	(12,622)	–	–	(12,622)
At 31 December 2019	**895**	**93**	**102,753**	**1,210,620**	**91,439**	**1,405,800**
Net losses on sale of investments	–	–	–	(25,932)	–	(25,932)
Movement in fair value adjustment	–	–	–	(197,347)	–	(197,347)
Cost of investment transactions	–	–	–	(2,747)	–	(2,747)
Management fees charged to capital	–	–	–	(4,529)	–	(4,529)
Finance costs charged to capital	–	–	–	(502)	–	(502)
Special dividends taken to capital	–	–	–	–	–	–
Revenue return attributable to equity shareholders	–	–	–	–	11,859	11,859
Equity dividends paid	–	–	–	–	(32,582)	(32,582)
Purchase of Ordinary Shares	(7)	7	(6,090)	–	–	(6,090)
At 31 December 2020	**888**	**100**	**96,663**	**979,563**	**70,716**	**1,147,930**

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.

	2020	2019
Net assets attributable	**£1,147,930,000**	£1,405,800,000
Ordinary Shares in issue at the end of year	**88,823,066**	89,533,066
Net Asset Value per Ordinary Share	**1,292.38p**	1,570.15p
Dividend reinvestment factor (defined in glossary)	**1.028250**	1.029434
Net Asset Value on a total return basis	**1,328.89p**	1,616.37p

The net asset value total return for the year ended 31 December 2020 is the percentage movement from the net asset value as at 31 December 2019 of 1,570.15p (31 December 2018: 1,273.72p) to the net asset value, on a total return basis, at 31 December 2020 of 1,328.89p (31 December 2019: 1,616.37p), which is -15.4% (2019: +26.9%).

Notes to the Financial Statements

17 Interest and Finance Costs Paid

	2020 £'000	2019 £'000
Bank debt facility fee	195	–
Interest/non-utilisation costs on bank debt facility	769	1,018
Total	**964**	**1,018**

18 Analysis of changes in net debt

	Net debt at 1 January 2020 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2020 £'000
Cash at bank	187	2,776	–	2,963
Bank debt facility	(13,750)	(59,250)	–	(73,000)
Bank debt facility fee (see notes 12 and 13)	29	195	(67)	157
Total	**(13,534)**	**(56,279)**	**(67)**	**(69,880)**

19 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 18 to 20), 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 2020 (2019: nil).

The Company has a bank debt facility of £130,000,000 of which £73,000,000 was drawn down as at 31 December 2020 (2019: debt facility of £125,000,000, of which £13,750,000 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 2020, the impact on the profit or loss and therefore Shareholders' funds would have been negative £730,000 per annum (2019: negative £137,500). If LIBOR and the bank base rate had been 0.1% point lower at 31 December 2020, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £73,000 per annum (2019: positive £103,125 at 0.75%). 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

With the exception of two investments, the Company's assets comprise mainly readily realisable equity securities which are all Level 1 assets and actively traded. The two exceptions are described below under Market price risk. Whilst less liquid than larger quoted companies, the portfolio is well diversified by both numbers of holdings and industry sector. 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 the following.

	2020 £'000	2019 £'000
Investment income receivable	**939**	2,777
Cash at bank	**2,963**	187
Total	**3,902**	2,964

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the investment managers in pursuance of the investment objective. Further information on the investment portfolio is set out in the Managers' Report on pages 9 to 16. 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 2020, the impact on the profit or loss and therefore Shareholders' funds would have been negative £121.8m (2019: negative £141.7m). If the investment portfolio valuation rose by 10% at 31 December 2020, the impact on the profit or loss and therefore Shareholders' funds would have been positive £121.8m (2019: positive £141.7m). 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 2020, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio largely consisted of investments valued at their bid price, which represents fair value, with the exception of two investments (2019: one). One investment has been fair valued at £nil and the other investment, suspended from trading as at 31 December 2020, has been fair valued at its suspension price. 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 2020

(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	**35**	**–**	**–**	**73,000**	**–**	**73,035**
Unamortised costs on bank debt facility	**–**	**–**	**–**	**(157)**	**–**	**(157)**
Other creditors	**–**	**85**	**–**	**–**	**–**	**85**
Total liabilities	**35**	**85**	**–**	**72,843**	**–**	**72,963**

19 Financial instruments *(continued)*

As at 31 December 2019

(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	67	–	13,750	–	–	13,817
Unamortised costs on bank debt facility	–	–	(29)	–	–	(29)
Other creditors	–	86	–	–	–	86
Total liabilities	67	86	13,721	–	–	13,874

Cash flows payable under financial liabilities by remaining contractual maturities

As at 31 December 2020

(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	**–**	**189**	**580**	**74,119**	**–**	**74,888**
Other creditors	**–**	**120**	**–**	**–**	**–**	**120**
Total	**–**	**309**	**580**	**74,119**	**–**	**75,008**

As at 31 December 2019

(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	–	189	13,910	–	–	14,098
Other creditors	–	153	–	–	–	153
Total	–	342	13,910	–	–	14,251

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 35 and 36. There were no matters requiring disclosure under s412 of the Companies Act 2006.

21 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2020 (2019: 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 thirtieth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 2 March 2021 at 2.30 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 2020 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2020 be approved.
3. That a final dividend of 22.90p per share be approved.
4. That Richard Davidson be re-elected as a Director.
5. That Julia Le Blan be re-elected as a Director.
6. That Paula Hay-Plumb be re-elected as a Director.
7. That Martin Warner be re-elected as a Director.
8. That Victoria Stewart 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 2021.

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 13,299,588 (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 2022 or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2022, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

Aberforth Partners LLP, *Secretaries*
29 January 2021

Notice of the Annual General Meeting

1. Attending the Annual General Meeting in person and Voting

A member who is entitled to 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. Shareholders are encouraged to submit their votes by proxy in advance of the meeting, owing to the restrictions caused by Covid-19 and Government guidance it is not possible for shareholders to attend in person.

To be entitled to 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 2021 (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 vote at the Annual General Meeting.

2. Appointment of Proxy

A Form of Proxy for use by shareholders is enclosed. Given shareholders will not be able to attend the meeting in person, shareholders are strongly encouraged to appoint the Chairman of the meeting as their proxy to vote on their behalf. 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 2 March 2021 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

The Board continues to welcome questions from shareholders in respect of the AGM. However, it asks shareholders to please submit any questions to the Board by email, to the following address enquiries@aberforth.co.uk before close of business on 26 February 2021. 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 29 January 2021, the latest practicable date prior to publication of this document, the Company had 88,723,066 Ordinary Shares in issue with a total of 88,723,066 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. Contact details are shown on the inside back cover.

Payment of dividends

To ensure that dividends are received as quickly as possible instruct the Company's Registrar 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.

Electronic Communications

Shareholders can choose to receive communications (including the Annual and Interim reports) from the Company in electronic format. This method may be more convenient and secure for many Shareholders, reduces costs and has environmental benefits. To use this service, Shareholders can register and provide their email address on the Registrar's share portal at www.signalshares.com. Thereafter, Shareholders will receive an email providing the website address link to the relevant document(s). After registering, Shareholders will be able to request paper copies in the future.

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 2023 (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 2020		
	Interim	**Final**
Rate per Share:	10.40p	22.90p
Ex Dividend:	6 August 2020	11 February 2021
Record date:	7 August 2020	12 February 2021
Pay date:	28 August 2020	9 March 2021
Half Yearly Report	Published	late July
Annual Report and Financial Statements	Published	late January/early February
Annual General Meeting		2 March 2021
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 2020 are shown below. There have been no changes to, or breaches of the maximum level of leverage employed by the Company.

	2020		2019	
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	**1.06:1**	**1.06:1**	1.01:1	1.01:1

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 2020) 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

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).

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.

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.

Dividend Reinvestment Factor is calculated on the assumption that dividends paid by the Company were reinvested into Ordinary Shares of the Company at the NAV per Ordinary Share or share price, as appropriate, on the day the Ordinary Shares were quoted ex dividend.

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. The Company has no hedging or netting arrangements.

Net Asset Value 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 53).

Ongoing Charges represent the total cost of investment management fees and other operating expenses of £7,977,000 (2019: £9,567,000), as disclosed in the Income Statement, as a percentage of the average published net asset value £984,116,000 (2019: £1,244,624,000) over the period, and are calculated in accordance with the guidelines issued by the AIC.

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

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 2020 was 1,248.00p (2019: 1,540.00p) and dividends, which went ex dividend during the year (see note 8 on page 51) were 36.4p (2019: 38.5p). The dividend reinvestment factor was 1.030776 (2019: 1.032754). The share price total return was therefore -16.5% (2019: +39.8%), being the percentage derived from the closing share price, adjusted by the dividend reinvestment factor, divided by the closing share price at the previous year end.

Corporate Information

Directors
Richard Davidson (Chairman)
Paula Hay-Plumb
Julia Le Blan
Richard Rae
Victoria Stewart
Martin Warner

Managers and Secretaries
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The Registry
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Shareholder enquiries:
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Share Portal:
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