

## STANDARD LIFE UK SMALLER COMPANIES TRUST PLC

### ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

Legal Entity Identifier (LEI): 213800UUKA68SHSJBE37

#### Investment Objective

To achieve long-term capital growth by investment in UK-quoted smaller companies

#### Reference Index

The Company's reference index is the Numis Smaller Companies plus AIM (ex investment companies) Index.

#### Website

Up to date information can be found on the Company's website: [standardlifeuksmallercompaniestrust.co.uk](http://standardlifeuksmallercompaniestrust.co.uk)

### COMPANY OVERVIEW - FINANCIAL HIGHLIGHTS

Net asset total return <sup>AB</sup>		Share price total return <sup>AB</sup>		Discount to net asset value <sup>AB</sup>	
2021	+41.9	2021	+46.9%	2021	5.4%
2020	-0.5%	2020	-0.1%	2020	8.7%
Total dividends per share		Revenue return per share		Ongoing charges ratio <sup>AB C</sup>	
2021	7.70p	2021	6.43p	2021	0.88%
2020	7.70p	2020	6.74p	2020	0.91%

A Considered to be an Alternative Performance Measure.

B A Key Performance Indicator ("KPI").

C Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis. The figure for 30 June 2020 has been restated in accordance with this guidance.

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*Please note that past performance is not necessarily a guide to the future and that the value of investments and the income from them may fall as well as rise. Investors may not get back the amount they originally invested.*

## STRATEGIC REPORT – CHAIRMAN'S STATEMENT

### Performance

For the year ended 30 June 2021, the Company's Net Asset Value ("NAV") total return, calculated on the basis that all dividends received are reinvested in additional shares, was 41.9%. The share price total return, calculated on the same basis, was 46.9%. In contrast, the total return of the Company's reference index, the Numis Smaller Companies plus AIM (ex investment companies) Index, was higher at 52.3%.

Underperformance in any period is obviously disappointing, but not totally surprising this year given the specific market circumstances. The Investment Manager has stressed to shareholders on a number of occasions that the investment process is designed to deliver outperformance over the economic cycle but, within that cycle, typically underperforms in the early stages of a market recovery, as we saw in the immediate aftermath of the announcements of the Covid-19 vaccine approvals last November. However, consistent with a recovery market, the absolute value of shareholders' investments increased substantially - by over 40% during the year. We should also note that these market conditions do not typically persist for long periods and the Company has outperformed the reference index over 2, 3, 5 and 10 years.

### Earnings and Dividends

The revenue return per share for the year ended 30 June 2021 was 6.43p (2020: 6.74p). The net decline of 4.6% on top of the 23.4% decline in 2020 is not unexpected given the timing of dividend payments by investee companies and the fact that the 2020 financial year end occurred a little over three months after the Covid crisis broke. Dividend income in the second half of this financial year is 37% higher than in 2020 indicating an improving revenue account, albeit income is still significantly below the level received in the second half of 2019.

The reduced level of income generated by the portfolio compared to the amounts delivered prior to 2020 is a key consideration for the Board when determining the level of the final dividend to be paid this year. The Board has carefully reviewed the rate at which the Investment Manager expects earnings to recover to pre-pandemic levels and how this should affect the final dividend for the year. The conclusion reached was that earnings are expected to recover, albeit slowly, and in the meantime revenue reserves should be used to fill in the shortfall between a dividend maintained at the level paid in 2020 and the earnings in the current year. The ability to use revenue reserves in this way is one of the advantages of the investment trust structure.

The Board is therefore proposing a final dividend of 5.00p per share, which will make a total dividend payment for the year of 7.70p per share, the same level as in 2019 and 2020. This will require that £1.2 million, or 1.21p per share, is drawn from revenue reserves. Subject to approval by shareholders at the Annual General Meeting to be held on 21 October 2021, the final dividend will be paid on 29 October 2021 to shareholders on the register on 8 October 2021 with an associated ex-dividend date of 7 October 2021.

### Ongoing Charges

The ongoing charges ratio ("OCR") for the year ended 30 June 2021 was 0.88% (2020: 0.91% (*restated, see foot note to Financial Highlights*)). The largest element of the ongoing charges is the management fee, which is closely correlated with the value of the investment portfolio.

### Discount Control and Buy Backs

At the year end the discount of the share price to the cum-income NAV per share was 5.4% (2020: 8.7%).

Over the year, the Company bought back 1,382,632 shares, equating to 1.4% of the Company's issued share capital, at a total cost of £8.4 million and a weighted average price of 603.5p per share. The weighted average discount was 6.1%. The Board calculates that this added 0.5p per share to the NAV for remaining shareholders.

Share buy-backs will only be made when the Board believes it to be in the best interests of shareholders and the making and timing of share buy-backs will be at the absolute discretion of the Board. Full details of the Board's Discount Control Policy in the Directors' Report. The average discount for the year as a whole was 5.6%.

### Gearing

The Board has given the Investment Manager discretion to vary the level of gearing between 5% net cash and 25% net gearing (at the time of drawdown). During the year, the revolving credit facility was extended by a further £20 million to £40 million. At the same time, with LIBOR being discontinued, the basis of the interest rate charged on the facility has been changed and it is now priced off SONIA. At the year end, both the

revolving credit facility and the £25 million of fixed-rate borrowing were fully drawn. The gross level of borrowings was offset by cash and cash equivalents of £23.2 million resulting in net gearing of 5.7% (2020: net cash of 0.3%).

### **Change of Name**

Shareholders may be aware that the Company's Manager has sold the name "Standard Life" to The Phoenix Group and has changed its name to abrdrn plc. The Board has discussed the impact of this on the name of the Company and considers that having the name of another financial services group incorporated into the name of the Company is likely to be confusing to current and prospective shareholders.

The Board is therefore proposing that the name of the Company be changed to "abrdrn UK Smaller Companies Growth Trust plc".

In considering the name change, the Board gave thought not only to the change of name of the Manager but also the need to differentiate the Company's name sufficiently from other investment trusts managed by the abrdrn Group. The Board is of the view that this is achieved by adding the word "Growth" to the Company's name and that the new name is a better reflection of the overall objective of the Company.

Under the terms of the Company's Articles of Association, the change of name needs to be approved by shareholders and the special resolution to do so is included in the Notice of AGM. If approved, the change of the Company's name will be effected as soon as possible after the AGM, its identifier will become AUSC and its website address will become: [www.abrdnuksmallercompaniesgrowthtrust.co.uk](http://www.abrdnuksmallercompaniesgrowthtrust.co.uk)

### **AGM, Online Shareholder Presentation and Investment Manager's Presentation**

#### AGM

The Company's Annual General Meeting ("AGM") will take place at 12 noon on Thursday 21 October 2021 at 6 St Andrew Square, Edinburgh EH2 2AH.

Although there is the possibility of some further easing of Covid-19 Government guidelines before the date of the AGM, consideration still needs to be given at this time to public safety, given that we believe that some social distancing measures may continue to be in place. With this in mind, we intend to again hold a functional meeting, as we did last year, to consider only the formal business of the meeting. Arrangements will therefore be made by the Company to ensure that the minimum number of shareholders required to form a quorum are in attendance at the meeting, in order that the meeting may proceed and the business of the meeting be concluded. There will be no formal presentation from the Investment Manager at this meeting and no refreshments will be offered but we would greatly appreciate your proxy voting support for all the resolutions proposed at the meeting.

#### Online Shareholder Presentation

In order to encourage as much interaction as possible with our shareholders, we will be hosting an Online Shareholder Presentation, which will be held at 10.00am on Wednesday 6 October 2021. At this event you will receive a presentation from the Investment Manager and have the opportunity to ask live questions of the Chairman, Senior Independent Director and the Investment Manager. The online presentation is being held ahead of the AGM to allow shareholders to submit their proxy votes prior to the meeting. Full details on how to register for the online event can be found at: [workcast.com/register?cpak=3354994554753360](http://workcast.com/register?cpak=3354994554753360)

Details are also contained on the Company's website.

You will be able to submit questions in advance of the Online Shareholder Presentation and the AGM at the following email address: [standardlife.smaller@aberdeenstandard.com](mailto:standardlife.smaller@aberdeenstandard.com).

Should you be unable to attend the online event, the Investment Manager's presentation will be made available on the Company's website shortly after the presentation. The Company's AGM results will also be published on the website.

In the meantime, the Board strongly encourages all shareholders to exercise their votes in respect of the AGM in advance of the meeting, and to appoint the Chairman of the meeting as their proxy, by completing the enclosed form of proxy, or letter of direction for those who hold shares through the Aberdeen Standard Investments savings plans. This should ensure that your votes are registered.

#### Investment Manager's Presentation

In order to give shareholders an opportunity to meet the Board and the Investment Manager, the Board will hold an investor presentation in the Manager's office, Bow Bells House, 1 Bread Street, London EC4M 9HH at

12 noon on Thursday 25 November 2021 which will be followed by lunch. Invitations are included with the Annual Report and a copy can be downloaded from the Company's website. Because of Covid-19 restrictions, shareholders will only be permitted to attend the event if a request to do so has been returned and acknowledged by the Manager who will be co-ordinating the event.

As with the AGM, Covid-19 restrictions may place restrictions on our ability to hold the presentation, or limit the number of shareholders who can attend. If this turns out to be the case, we will make an announcement on the Company's website and communicate as appropriate with those shareholders who have submitted a request to attend.

### **Outlook**

We are frequently being reminded that "past performance is no guide to the future", but the results of the last 12 months, being characterised by strong absolute performance and weak relative performance, are typical of what the investment process operated by the Investment Manager has delivered in similar market conditions over the last 20 years. Specifically, the process has not normally delivered relative outperformance in the early stages of a recovery. However, as the initial euphoria wanes and investors refocus on fundamentals, the inherent quality of the companies in which the portfolio is invested starts to come back to the fore and is reflected in improved valuations. We have seen evidence of this in the past few months, with the relative outperformance in April and June 2021 being higher than any monthly return since late 2015. The Board supports the Investment Manager's belief that consistency of investment approach is more important to investors than attempting to adjust the investment process to reflect what are expected to be short-term market dynamics.

Over the past 18 months we have been faced with very considerable near-term uncertainties resulting initially from Brexit, then from Covid. We can now hope for a gradual return to something that resembles pre-Covid normality, leading to improved prospects and greater visibility of outlook for investee companies. However, we are now in a period where the uncertainty lies more in the longer-term combined consequences of these events. We must be mindful that they have brought significant - and ongoing - changes in the underlying operating and economic environment for our investee companies which bring both increased opportunity and risk. All of this reinforces the message that investors need to see an investment in the Company as a long-term decision.

One particular aspect that has changed over the past 18 months is that many companies have taken the opportunity to revise their dividend policy. The result of this is that the Company's revenues have been significantly reduced and at present the Board does not expect that the current level of dividend will be covered by earnings in the coming year. Although the Board does not expect that many shareholders own shares because of the dividend that the Company pays, it recognises that it is a component of the total return delivered to shareholders. The Board remains keen not to cut the dividend and intends to use revenue reserves to fill the shortfall for the time being whilst we monitor progress in our return towards a fully covered dividend, potentially in 2023 or 2024.

Liz Airey  
Chairman  
6 September 2021

## STRATEGIC REPORT – OVERVIEW OF STRATEGY

### Business

The Company is an investment trust with a premium listing on the London Stock Exchange.

### Investment Objective

The Company's objective is to achieve long-term capital growth by investment in UK-quoted smaller companies.

### Investment Policy

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK-quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio).

Within the Company's Articles of Association, the maximum level of gearing is 100% of net assets. The Directors have set parameters of between 5% net cash and 25% net gearing (at the time of drawdown) for the level of gearing that can be employed in normal market conditions. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

### Board Investment Limits

The Directors have set additional guidelines in order to reduce the risk borne by the portfolio:

- Companies with a market capitalisation of below £50 million should not represent more than 5% of total assets.
- Companies involved in "Blue Sky" products should not represent more than 5% of total assets.
- No more than 50% of the portfolio should be invested in companies that are constituents of the FTSE AIM All-Share Index.

### Investment Process

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process has evolved out of the Investment Manager's 'Focus on Change' philosophy and is led by Quality, Growth and Momentum. The Investment Manager's stock selection led investment process involves compiling a shortlist of potential investments using a proprietary screening tool known as "The Matrix" which reflects Quality, Growth and Momentum based factor analysis. The final portfolio is research intensive and includes face to face meetings with senior management of these potential investments. This disciplined process has been employed for many years and has delivered a consistency of performance through economic and market cycles.

### Reference Index

The Company's reference index is the Numis Smaller Companies plus AIM (ex investment companies) Index.

### Delivering the Investment Objective

The Directors are responsible for determining the Company's investment objective and investment policy. Day-to-day management of the Company's assets has been delegated, via the Alternative Investment Fund Manager (the "AIFM"), to the Investment Manager.

### Promoting the Success of the Company

The Board's statement below describes how the Directors have discharged their duties and responsibilities over the course of the financial year under section 172 (1) of the Companies Act 2006 and how they have promoted the success of the Company.

### Key Performance Indicators ("KPIs")

The Board assesses the performance of the Company against the range of KPIs shown below over a variety of timeframes, but has particular focus on the long term, which the Board considers to be at least five years.

#### KPI

Net asset value ("NAV") total return performance

#### Description

The Board measures the Company's NAV total return performance against the total return of the

reference index (the Numis Smaller Companies plus AIM (ex investment companies) Index) and its peer group of investment trusts.

The NAV total return has outperformed the reference index and peer group weighted average over three, five and ten years.

Share price total return performance

The Board measures the Company's share price total return performance against the total return of the reference index and its peer group of investment trusts.

The share price total return has outperformed the reference index and peer group weighted average over three and five years.

Discount/premium to NAV

The Board compares the discount or premium of the Ordinary share price to the NAV per share to the discount of the peer group and also to the threshold of the Company's discount target on a rolling 12 month basis.

The average discount for the year as a whole was 5.6%.

Ongoing charges

The Board monitors the Company's ongoing charges ratio against prior years and other similar sized companies in the peer group.

The OCR for the year ended 30 June 2021 was 0.88%, including look-through costs. This compares to the range of the most recently reported full year OCRs, including performance fees, for comparable investment trusts in the UK smaller companies sector of between 0.79% and 1.60%.

### **Principal Risks and Uncertainties**

The Board carries out a regular review of the risk environment in which the Company operates, changes to the environment and individual risks. The Board also considers emerging risks which might affect the Company. During the year, the most significant risk was the continuing effect of the Covid-19 virus which, in addition to the dramatic impact on public health, created significant economic uncertainty and volatility in global stock markets.

There are a number of other risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The Board has carried out a robust assessment of the Company's principal and emerging risks, which include those that would threaten its business model, future performance, solvency, liquidity or reputation.

The principal risks and uncertainties faced by the Company are reviewed by the Audit Committee in the form of a risk matrix and the Committee also gives consideration to the emerging risks facing the Company.

The principal risks and uncertainties facing the Company at the current time, together with a description of the mitigating actions the Board has taken, are set out in the table below.

In terms of its appetite for risk, the Board has identified what it considers to be the key risks to which the Company is exposed and seeks to take a proportionate approach to the control of these risks. In particular, by considering the likelihood and impact of a specific risk, if the potential exposure is rated as Critical or Significant, the Board ensures that significant mitigation is in place to reduce the likelihood of occurrence whilst recognising that this may not be possible in all cases.

The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet and they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are available on the Company's website.

## **Risk**

**Strategy** - the Company's objectives or the investment trust sector as a whole become unattractive to investors, leading to a fall in demand for the Company's shares.

**Investment performance** - the appointment or continuing appointment of an investment manager with inadequate resources, skills or experience, or the adoption of inappropriate strategies in pursuit of the Company's objectives could result in poor investment performance, a loss of value for shareholders and a widening discount.

**Key person risk** - a change in the key personnel involved in the investment management of the portfolio could impact on future investment performance and lead to loss of investor confidence.

## **Mitigating Action**

Through regular updates from the Manager, the Board monitors the discount/ premium at which the Company's shares trade relative to the NAV. It also holds an annual strategy meeting and receives feedback from the Company's stockbroker and shareholders and updates from the Manager's investor relations team at Board meetings.

The Board meets the Manager on a regular basis and keeps investment performance under close review. Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Manager is carried out by the Management Engagement Committee on an annual basis.

The Board sets and monitors the investment restrictions and guidelines and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process, ESG matters, risk management and application of the investment guidelines.

The Board discusses key person risk and succession planning with the Manager and Investment Manager on a regular basis.

The Investment Manager employs a standardised investment process for the management of the portfolio. The well-resourced smaller companies team has grown in size over a number of years. These factors mitigate against the impact of the departure of any one member of the investment team.

**Share price** - failure to manage the discount effectively or an inappropriate marketing strategy could lead to a fall in the share price relative to the NAV per share.

**Financial instruments** - insufficient oversight or controls over financial risks, including market price risk, liquidity risk and credit risk could result in losses to the Company.

**Financial obligations** - inadequate controls over financial record keeping and forecasting, the setting of an inappropriate gearing strategy or the breaching of loan covenants could result in the Company being unable to meet its financial obligations, losses to the Company and its ability to continue trading as a going concern.

**Regulatory** - failure to comply with relevant laws and regulations could result in fines, loss of reputation and potential loss of investment trust status.

The Company operates a discount control mechanism and aims to maintain a discount level of less than 8% to the cum-income NAV under normal market conditions. Details of the discount control mechanism are contained in the Directors' Report. The Directors undertake a programme of inviting major shareholders to discuss issues of governance or strategy with the Chairman or Senior Independent Director. In addition, the Company participates in the Manager's investment trust promotional programme where the Manager has an annual programme of meetings with institutional shareholders and reports back to the Board on these meetings.

As stated above, the Board sets investment guidelines and restrictions which are reviewed regularly and the Manager reports on compliance with them at Board meetings.

Further details of the Company's financial instruments and risk management are included in note 17 to the financial statements.

At each Board meeting, the Board reviews management accounts and receives a report from the Depositary detailing any breaches during the period under review. The Board sets gearing limits and monitors the level of gearing and compliance with the main financial covenants at Board meetings. The Company's annual financial statements are audited by the Independent Auditor.

The Audit Committee meets a representative from the Manager's Internal Audit team on at least an annual basis and discusses any findings and recommendations relevant to the Company.

The Board receives updates on relevant changes in regulation from the Manager, industry bodies and external advisers and the Board and Audit Committee monitor compliance with regulations by review of checklists and internal control reports from the Manager. Directors are encouraged to attend relevant external training courses.

**Operational** - the Company is dependent on third parties for the provision of all systems and services (in particular those of the Manager and the Depositary) and any control failures and gaps in their systems and services could result in a loss or damage to the Company.

The Audit Committee reviews reports from the Manager on its internal controls and risk management (including an annual ISAE Report) and considers assurances from all its other significant service providers on at least an annual basis, including on matters relating to business continuity and cyber security. The Audit Committee meets a representative from the Manager's Internal Audit team on at least an annual basis and discusses any findings and recommendations relevant to the Company. Written agreements are in place with all third party service providers.

The Manager monitors closely the control environments and quality of services provided by third parties, including those of the Depositary, through service level agreements, regular meetings and key performance indicators.

A formal appraisal of the Company's main third party service providers is carried out by the Management Engagement Committee on an annual basis.

The operational requirements of the Company have been subject to rigorous testing during the Covid-19 pandemic, including increased use of online communication and out of office working and reporting.

**Covid-19 and Brexit** - the effects of instability or change arising from these risks could have an adverse impact on stock markets, the value of the investment portfolio and operational aspects relating to the Company.

The Board discusses current issues with the Manager and the steps that the Manager is taking to limit the impact on the Company's portfolio.

The Investment Manager's focus on quality companies, the diversified nature of the portfolio and a managed level of gearing all serve to provide a degree of protection in times of market volatility.

In relation to the Covid-19 pandemic, the Board considers that this is a risk that could have further implications for global financial markets, economies and on the operating environment of the Company, the impact of which is difficult to predict at the current juncture. Since the outbreak of the virus in 2020, the Board has been liaising closely with the Manager to seek assurances that the operations of the Manager and those of other third party service providers are operating effectively.

### **Promotional Activities**

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the rating of the Company's shares. The Board believes one effective way to achieve this is through subscription to, and participation in, the promotional programme run by Aberdeen Standard Investments on behalf of a number of investment trusts under its management. The Company's financial contribution to the programme is matched by Aberdeen Standard Investments. The Company also supports Aberdeen Standard Investments' investor relations programme which involves regional roadshows, promotional and public relations campaigns. During the Covid-19 pandemic, a number of events that are usually held physically have been substituted with virtual events. Aberdeen Standard Investments' promotional and investor relations teams report to the Board on a quarterly basis giving analysis of the promotional activities as well as updates on the shareholder register and any changes in the make-up of that register.

The purpose of the promotional and investor relations programmes is both to communicate effectively with existing shareholders and to gain new shareholders, with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key.

The promotional programme includes commissioning independent paid for research on the Company, most recently from Edison Investment Research Limited. A copy of the latest research note is available from the Latest News section of the Company's website.

### **Board Diversity Policy**

The Board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the Board in order to allow it to fulfil its obligations. The Board also recognises the benefits and is supportive of, and will give due regard to, the principle of diversity in its recruitment of new Board members. In all cases, the Board will ensure that appointments are made on the basis of merit against the specification prepared for each appointment and the Board does not therefore consider it appropriate to set measurable objectives in relation to its diversity.

At 30 June 2021, there were two male and three female Directors on the Board.

### **Environmental, Social and Human Rights Issues**

The Company has no employees as the Board has delegated the day to day management and administrative functions to the Manager. There are therefore no disclosures to be made in respect of employees.

### **Modern Slavery Act**

Due to the nature of its business, being a company that does not offer goods and services to customers, the Board considers that the Company is not within the scope of the Modern Slavery Act 2015 because it has no turnover. The Company is therefore not required to make a slavery and human trafficking statement. In any event, the Board considers the Company's supply chains, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

### **The UK Stewardship Code and Proxy Voting**

The Company supports the UK Stewardship Code, and seeks to play its role in supporting good stewardship of the companies in which it invests. Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager. abrdn plc is a tier 1 signatory of the UK Stewardship Code which aims to enhance the quality of engagement by investors with investee companies in order to improve their socially responsible performance and the long term investment return to shareholders. While delivery of stewardship activities has been delegated to the Manager, the Board acknowledges its role in setting the tone for the effective delivery of stewardship on the Company's behalf.

The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Company's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.

### **Global Greenhouse Gas Emissions**

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.

### **Discount Control Policy**

The Board operates a discount control mechanism which targets a maximum discount of the share price to the cum-income net asset value of 8% under normal market conditions. In pursuit of this objective, the Board closely monitors the level of the discount and buys back shares in the market when it believes it is in the best interests of shareholders as a whole to do so. At each Annual General Meeting, the Board seeks shareholder approval to buy back up to 14.99% of the Company's share capital. Share buy-backs will only be made where the Board believes it to be in the best interests of shareholders as a whole and the making and timing of share buy-backs will be at the discretion of the Board.

The Company has a tender offer mechanism in place and the Board intends to continue to seek shareholder approval at each Annual General Meeting to enable it to carry out tender offers on a discretionary basis in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level, although it expects that buy-backs should be the primary mechanism for managing the discount.

### **Viability Statement**

The Board considers that the Company, which does not have a fixed life, is a long term investment vehicle and, for the purposes of this statement, has decided that five years is an appropriate period over which to

consider its viability. The Board considers that this period reflects a balance between looking out over a long term horizon and the inherent uncertainties of looking out further than five years.

Taking into account the Company's current financial position and the potential impact of its principal risks and uncertainties, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of five years from the date of this Report.

In assessing the viability of the Company over the review period, the Directors have focused upon the following factors:

- The principal risks and uncertainties detailed in the Strategic Report and the steps taken to mitigate these risks.
- The Company is invested in readily-realizable listed securities in normal market conditions and there is a spread of investments held.
- The Company is closed ended in nature and therefore it is not required to sell investments when shareholders wish to sell their shares.
- The Company's long term performance record.
- The Company's level of gearing. The Company had net gearing of 5.7% as at 30 June 2021. The Company has a £65 million unsecured loan facility agreement with The Royal Bank of Scotland International Limited which matures on 31 October 2022. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants. The Board has also performed stress testing and liquidity analysis.
- The Company typically has cash balances which, including money market funds, at 30 June 2021 amounted to £22.7 million. These balances allow the Company to meet liabilities as they fall due.
- The level of ongoing charges.
- There are no capital commitments currently foreseen that would alter the Board's view.
- Current market conditions caused by the global spread of the Covid-19 virus. In particular, the Board has considered the operational ability of the Company to continue in the current environment, which has been impacted by the Covid-19 pandemic and the ability of the key third-party suppliers to continue to provide essential services to the Company.

In assessing the Company's future viability, the Board has assumed that shareholders will wish to continue to have exposure to the Company's activities in the form of a closed ended entity, performance will continue to be satisfactory, and the Company will continue to have access to sufficient capital.

In making its assessment, the Board is also aware that there are other matters that could have an impact on the Company's prospects or viability in the future, including a greater than anticipated economic impact of the spread of the Covid-19 virus, economic shocks or significant stock market volatility caused by other factors, and changes in regulation or investor sentiment.

### **Future Strategy**

The Board intends to maintain the strategic direction set out in the Strategic Report for the year ending 30 June 2022 as it is believed that these are in the best interests of shareholders.

On behalf of the Board

Liz Airey

Chairman

6 September 2021

## **STRATEGIC REPORT – PROMOTING THE SUCCESS OF THE COMPANY**

### **Introduction**

Section 172 (1) of the Companies Act 2006 (the “Act”) requires each Director to act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

The Board is required to describe to the Company’s shareholders how the Directors have discharged their duties and responsibilities over the course of the financial year under that provision of the Act (the “Section 172 Statement”). This statement provides an explanation of how the Directors have promoted the success of the Company for the benefit of its members as a whole, taking into account the likely long term consequences of decisions, the need to foster relationships with all stakeholders and the impact of the Company’s operations on the environment.

### **The Purpose of the Company and Role of the Board**

The purpose of the Company is to act as an investment vehicle to provide, over time, financial returns (both income and capital) to its shareholders. Investment trusts, such as the Company, are long-term investment vehicles and are typically externally managed, have no employees, and are overseen by an independent non-executive board of directors.

The Board, which at the end of the year, comprised five independent non-executive Directors with a broad range of skills and experience across all major functions that affect the Company, retains responsibility for taking all decisions relating to the Company’s investment objective and policy, gearing, corporate governance and strategy, and for monitoring the performance of the Company’s service providers.

The Board’s philosophy is that the Company should operate in a transparent culture where all parties are treated with respect and provided with the opportunity to offer practical challenge and participate in positive debate which is focused on the aim of achieving the expectations of shareholders and other stakeholders alike. The Board reviews the culture and manner in which the Manager and Investment Manager operate at its meetings and receives regular reporting and feedback from the other key service providers. The Board is very conscious of the ways it promotes the Company’s culture and ensures as part of its regular oversight that the integrity of the Company’s affairs is foremost in the way that the activities are managed and promoted. The Board works very closely with the Manager and Investment Manager in reviewing how stakeholder issues are handled, ensuring good governance and responsibility in managing the Company’s affairs, as well as visibility and openness in how the affairs are conducted.

The Company’s main stakeholders have been identified as its shareholders, the Manager (and Investment Manager), service providers, investee companies, debt providers and, more broadly, the environment and community at large.

### **How the Board Engages with Stakeholders**

The Board considers its stakeholders at Board meetings and receives feedback on the Manager’s interactions with them.

#### **Stakeholder**

Shareholders

#### **How We Engage**

Shareholders are key stakeholders and the Board places great importance on communication with them. The Board welcomes all shareholders’ views and aims to act fairly to all shareholders. The Manager and Company’s stockbroker regularly meet with current and prospective shareholders to discuss performance and shareholder feedback is discussed by the Directors at Board meetings. In addition, Directors meet shareholders at the Annual General Meeting and the Chairman offers to meet with the Company’s larger shareholders to discuss their views. The Company subscribes to Aberdeen Standard Investments’ investor relations programme in order to maintain communication channels with the Company’s shareholder base.

Regular updates are provided to shareholders through the Annual Report, Half Yearly Report, monthly factsheets, Company announcements, including daily net asset value announcements, and the Company’s website.

The Company's Annual General Meeting provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager. Typically, the Board encourages as many shareholders as possible to attend the Company's Annual General and to provide feedback on the Company (but see comments in the Chairman's Statement regarding arrangements for the Annual General Meeting this year and the separate Online Shareholder Presentation and Investment Manager's Presentation events).

#### Manager (and Investment Manager)

The Investment Manager's Review details the key investment decisions taken during the year. The Investment Manager has continued to manage the Company's assets in accordance with the mandate provided by shareholders, with oversight provided by the Board.

The Board regularly reviews the Company's performance against its investment objective and the Board undertakes an annual strategy review meeting to ensure that the Company is positioned well for the future delivery of its objective for its stakeholders.

The Board receives presentations from the Investment Manager at every Board meeting to help it to exercise effective oversight of the Investment Manager and the Company's strategy.

The Board, through the Management Engagement Committee, formally reviews the performance of the Manager at least annually.

#### Service Providers

The Board seeks to maintain constructive relationships with the Company's service suppliers and the regulator either directly or through the Manager with regular communications and meetings.

The Management Engagement Committee conducts an annual review of the performance, terms and conditions of the Company's main service providers to ensure they are performing in line with Board expectations, carrying out their responsibilities and providing value for money.

#### Investee Companies

Responsibility for monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Company's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.

Through engagement and exercising voting rights, the Investment Manager actively works with companies to improve corporate standards, transparency and accountability.

The Board monitors investments made and divested and questions the rationale for investment and voting decisions made.

#### Debt Providers

On behalf of the Company, the Manager maintains a positive working relationship with The Royal Bank of Scotland International Limited ("RBSI"), the provider of the Company's loan facility, and provides regular updates on business activity and compliance with its loan covenants.

#### Environment and Community

The Board and Manager are committed to investing in a responsible manner and the Investment Manager embeds Environmental, Social and Governance ("ESG") considerations into its research and analysis as part of the investment decision-making process.

## **Specific Examples of Stakeholder Consideration During the Year**

While the importance of giving due consideration to the Company's stakeholders is not a new requirement, and is considered during every significant Board decision, the Directors were particularly mindful of stakeholder considerations during the following decisions undertaken during the year ended 30 June 2021. Each of these decisions was made after taking into account the short and long term benefits for stakeholders.

### **Portfolio**

The Investment Manager's Review details the key investment decisions taken during the year. The overall shape and structure of the investment portfolio is an important factor in delivering the Company's stated investment objective and is reviewed at every Board meeting. Accordingly, at each Board meeting the Directors discuss performance in detail with the Investment Manager. In addition, during the year, the Board considered in detail how the Investment Manager incorporates ESG issues into its research and analysis work that forms part of the investment decision process.

As explained in the Directors' Report, during the year, the Management Engagement Committee decided that the continuing appointment of the Manager was in the best interests of shareholders.

### **Operational Systems & Covid-19**

The Company is dependent on third parties for the provision of all systems and services (in particular, those of the abrdrn Group) and any control failures and gaps in their systems and services could result in fraudulent activities or a loss or damage to the Company. Since the outbreak of the Covid-19 virus in 2020, with many people working from home, the Board has been liaising closely with the Manager to receive assurances (including the receipt of internal control reports) that the operations of the Manager and those of other third party service providers are operating effectively.

### **Dividends**

The Board is recommending payment of a final dividend for the year of 5.00p per Ordinary share. Following payment of the final dividend, total dividends for the year will amount to 7.70p per Ordinary share, unchanged from the previous year.

### **Share Buy Backs**

In accordance with the discount control policy included in the Directors' Report, during the year the Company bought back 1,382,632 Ordinary shares to be held in treasury, providing a small accretion to the NAV per share and a degree of liquidity to the market at times when the discount to the NAV per share has widened in normal market conditions. It is the view of the Board that this policy is in the interest of all shareholders.

### **Bank Borrowings**

During the year, the Board approved an amendment to the Company's loan agreement with RBSI to provide it with an additional £20 million revolving credit facility ("RCF"). Following this amendment, the Company's borrowing facilities amount to £65 million in aggregate, comprising a £25 million fixed-rate loan, at an interest rate 2.349%, and a £40 million RCF. The entire facility is due to mature on 31 October 2022. The Board believes that the modest use of gearing by the Company is of long term benefit to shareholders.

### **Online Shareholder Presentation and Investment Manager's Presentation**

As explained in more detail in the Chairman's Statement, given the risks posed by the spread of the Covid-19 virus, the Annual General Meeting on 21 October 2021 is anticipated to be a functional-only meeting. Therefore, to encourage and promote interaction and engagement with the Company's shareholders, the Board has decided to hold an interactive Online Shareholder Presentation which will be held at 10.00am on 6 October 2021. At the presentation, shareholders will receive updates from the Chairman and Investment Manager and there will be the opportunity for an interactive question and answer session. The online presentation is being held ahead of the AGM so as to allow shareholders to submit their proxy votes prior to the meeting.

In order to give shareholders an opportunity to meet the Board and the Investment Manager, the Board will also hold an investor presentation in the Manager's office in London at 12 noon on Thursday 25 November 2021. Invitations are included with the Annual Report and a copy can be downloaded from the Company's website.

The Board places a great deal of importance on communications with shareholders and believes that these events will provide good opportunities for it to receive feedback from shareholders and provide responses to questions raised.

On behalf of the Board  
Liz Airey  
Chairman  
6 September 2021

## STRATEGIC REPORT - RESULTS

### Financial Highlights

	30 June 2021	30 June 2020	% change
<b>Capital return</b>			
Total assets	£793.2m	£553.0m	43.4%
Equity shareholders' funds	£728.2m	£528.1m	37.9%
Market capitalisation <sup>A</sup>	£688.8m	£482.3m	42.8%
Net asset value per share	737.97p	527.73p	39.8%
Share price	698.00p	482.00p	44.8%
Discount to NAV <sup>B</sup>	5.4%	8.7%	
Net gearing/(cash) <sup>B</sup>	5.7%	(0.3)%	
Reference index	6,977.10	4,653.87	49.9%
<b>Dividends and earnings</b>			
Revenue return per share <sup>C</sup>	6.43p	6.74p	(4.6%)
Total dividends per share <sup>D</sup>	7.70p	7.70p	-
<b>Operating costs</b>			
Ongoing charges ratio <sup>B E</sup>	0.88%	0.91%	

<sup>A</sup> Represents the number of Ordinary shares in issue in the Company multiplied by the Company's share price.

<sup>B</sup> Considered to be an Alternative Performance Measure.

<sup>C</sup> Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).

<sup>D</sup> The figures for dividend per share reflect the years in which they were earned.

<sup>E</sup> Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis. The figure for 30 June 2020 has been restated in accordance with this guidance.

## STRATEGIC REPORT - PERFORMANCE

### Performance (total return)

	1 year return %	3 years return %	5 years return %	10 years return %
Net asset value <sup>A B</sup>	+41.9	+39.8	+130.0	+255.8
Share price <sup>B</sup>	+46.9	+46.3	+139.2	+245.3
Reference Index	+52.3	+26.1	+76.6	+176.9
Peer Group weighted average (NAV)	+58.3	+30.8	+102.6	+224.2
Peer Group weighted average (share price)	+64.0	+35.0	+127.3	+262.4

<sup>A</sup> Cum-income NAV with debt at fair value.

<sup>B</sup> Considered to be an Alternative Performance Measure.

Source: Thomson Reuters Datastream

## Ten Year Financial Record

Year to 30 June	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Per Ordinary share (p)</b>										
Net revenue return	3.50	4.58	5.05	6.76	6.76	6.42	7.24	8.80	6.74	6.43
Ordinary dividends paid/proposed	3.10	4.05	4.50	5.80	6.60	6.70	7.00	7.70	7.70	7.70
Net asset value <sup>A</sup>	215.61	281.58	298.92	336.89	345.43	456.60	552.93	539.54	527.73	737.97
Share price	203.00	280.50	281.25	300.00	316.00	431.00	500.00	491.50	482.00	698.00
<b>Discount(%)<sup>A</sup></b>	5.8	0.4	5.9	10.9	8.5	5.6	9.6	8.9	8.7	5.4
<b>Ongoing charges ratio (%)<sup>B</sup></b>	0.96	1.28	1.19	1.19	1.13	1.08	1.04	0.90	0.91	0.88
<b>Gearing ratio (%)<sup>C</sup></b>	5.8	8.8	(4.6)	4.1	3.6	1.7	3.6	1.5	(0.3)	5.7
<b>Shareholders' funds (£m)<sup>D</sup></b>	140	193	219	243	241	324	408	543	528	728
<b>Revenue reserves (£m)<sup>E</sup></b>	2.80	3.69	4.34	5.83	6.50	6.26	8.30	10.87	8.80	7.53

<sup>A</sup> Calculated with debt at par value and diluted for the effect of Convertible Unsecured Loan Stock conversion from 31 March 2011 until 30 June 2017. From 30 June 2018, net asset value is calculated with debt at par value.

<sup>B</sup> Calculated as an average of shareholders' funds throughout the year and in accordance with updated AIC guidance issued in October 2020, to include the Company's share of costs of holdings in investment companies on a look-through basis. The figure for 30 June 2020 has been restated in accordance with this guidance.

<sup>C</sup> Net gearing ratio calculated as debt less cash invested in AAA-rated money market funds and short-term deposits divided by net assets at the year end.

<sup>D</sup> Increase in 2018 included the effect of the merger with Dunedin Smaller Companies Investment Trust PLC.

<sup>E</sup> Revenue reserves are reported prior to paying the final dividend for the year.

## STRATEGIC REPORT – INVESTMENT MANAGER’S REVIEW

*The net asset value (“NAV”) total return for the Company for the year ended 30 June 2021 was 41.9%, whilst the share price total return was 46.9%. By comparison, the UK smaller companies sector as represented by the Numis Smaller Companies plus AIM (ex investment companies) Index delivered a total return of 52.3%. Over the same period, the FTSE 100 Index of the largest UK listed companies delivered a total return of 18.0%. Since we took over the management of the Company on 1 September 2003, the share price total return is 1,808% from then to the current period end compared with the reference index’s total return of 582%. The FTSE 100 Index’s total return was 227% over the same period.*

### Equity Markets

Market performance during the period in question can be divided into three parts. Firstly, before the announcement of Covid vaccines in November 2020, secondly the value recovery phase which ran until March 2021, and thirdly, the more stable performance of markets once that recovery phase had come to an end. Small and mid-cap indices moved sideways during the summer and autumn as the world remained in the grip of Covid. However, following the first vaccine announcement on 9 November 2020, markets accelerated upwards. This was led by the so-called “value” stocks that were seen as the immediate beneficiaries of a post-Covid return to normal. After March, the market reverted to a more realistic approach as it became clear that normalisation would take longer than first thought. Continued ultra-low interest rates across the world combined with monetary stimulus have pushed markets ahead. Recent signs of widespread rising inflation have tempered that growth.

UK markets in general have performed less well than most other markets, particularly the technology-heavy Nasdaq Index in the USA, as well as most European and Far East markets, where Covid was tackled in a more robust fashion and economies came out the other side more quickly. Lately, resurgence of Covid has sent these trends into reverse somewhat. The issue of Brexit has largely been of secondary importance to Covid.

In the first period until 9 November 2020 Covid winners led the way with really spectacular stock performances from some of the Company’s largest holdings. A second bout of lock-down encouraged this trend. However, since the announcement on 9 November we have witnessed a complete reversal, with a dramatic recovery for those worst affected and with most to gain from the potential return of normal conditions in the not too distant future. It was a classic recovery rally, not unlike the second quarter of 2009 after the trough of the Banking Crisis. However, by the end of March 2021, markets reverted more in favour of our quality, growth and momentum led process as a third Covid wave took hold, delaying the return to normality.

Sector performance was led by the three dramatic “style” reversals apparent during the year. On the whole, the value style won out. Sector performance saw dramatic swings during the year related to which “style” was in vogue at the time, be it a Covid beneficiary, value recovery or based on earnings performance. Given this, the recovery sectors led the way, particularly in the consumer discretionary sectors such as home construction, personal goods, media, retail and travel & leisure. A couple of industrial sectors performed well; those of electronics & electricals and industrial engineering. The losing sectors included oil & gas, mining, telecoms and consumer staples.

Oil & gas and mining under-performed even though there was a strong recovery in the oil price, with Brent rising from \$43 to \$74 per barrel during the year. The key industrial metal copper rose 56% although gold was flat. It appears that the leading smaller oil and mining smaller company stocks performed poorly, showing a significant lack of correlation with their relevant commodity prices. The only conclusion here seems to be the impact that Environmental, Social and Governance (“ESG”) thinking has had that has made these sectors unattractive, perhaps in the long term.

Bid activity started to pick up markedly, particularly in the final three months of 2020 and into 2021 with bids for William Hill, Countrywide, IMI mobile, McCarthy & Stone, G4S, Aggreko, Morrisons and the AA among others, mainly from private equity funds and opportunist value buyers. Sanne, a fund administrator owned by the Company received a bid.

### Performance

A NAV total return of 41.9% would normally be considered an outstanding return figure. However, our smaller companies reference index did even better, delivering a total return of over 52%. This reflects the index’s heavy weighting in higher risk value and recovery stocks. These are areas that traditionally perform less well over the economic cycle but come into their own in value recovery led markets which was the key feature of the mid-period of the financial year.

We have always been very clear that the portfolio is positioned to deliver outperformance over the cycle and that there will be periods when it will underperform. Over the more than 20 years that we have deployed the investment strategy that we use for the Company, we have seen that, during periods of sharp recovery that typically follow a crisis in the market, the portfolio underperforms for a time as investors focus on companies that have been particularly hard hit during that downturn. These stocks do not normally meet our investment criteria. Thankfully, such events only occur rarely and during rising markets of extreme smaller company popularity. We are long-term investors and are not timing experts and do not consider it appropriate to attempt to switch into such stocks for a short period. We last saw this in the spring of 2009, following the trough of the financial crisis.

The recovery that we have seen across the world since the first announcement of a Covid vaccine on 9 November 2020 looks to be typical of this sort of market behaviour. Prior to the announcement, the portfolio was outperforming the reference index but, although it continued to increase in value after the start of November, it did not keep pace with the index. Happily for the portfolio's "relative" performance, the value recovery came to an abrupt end in the second half of March 2021.

Relative performance "pre-vaccine" was good and was driven by some really quite spectacular trading statements, from the likes of Kainos, Games Workshop, Ergomed, Impax Asset Management, Team17, Gear4Music and Focusrite. However, following the announcement of a Covid vaccine, the portfolio's performance appears pedestrian when compared to the index. This impact was particularly fierce in the week after the announcement of the first vaccine. Share price returns since March 2021 seem to be more rational and tend to reflect underlying trading within individual company holdings.

The five leading performers during the year were as follows:-

Future (closing weight 4.8%) +2.4% completed the acquisition of GoCo plc, the price comparison website. It also turned in a couple of sets of stellar results.

Kainos (closing weight 4.0%) +1.1% announced that results would be materially ahead of expectations and reinstated the dividend. Government digitalisation of processes continues apace as does Workday installations.

Impax Asset Management (closing weight 2.9%) +0.9% continues to ride the ESG wave and take in assets at a prodigious rate as it invests in companies well positioned to benefit from the transition to a more sustainable global economy.

Next Fifteen Communications (closing weight 1.9%) +0.7% has gained momentum in the digital media space under the leadership of industry veteran founder Tim Dyson.

Alpha Financial Markets (closing weight 2.4%) +0.5% is a specialist in providing consultancy to the asset management industry which is currently facing significant change.

The five worst performers during the year were as follows:-

Hilton Food Group (closing weight 2.6%) -1.5%. Although this innovative international beef and fish packer has performed well, there is the feeling abroad that it will suffer post-Covid when restaurants are open again.

Trainline (position sold during the year) -1.2%. The on-line rail ticketing agent was hit hard by the announcement that the new rail authority GB Rail would establish its own competing on-line ticketing system.

RWS (closing weight 1.7%) -1.1% has weakened following the share acquisition of SDL. This language translation company was seen as low grade by investors.

AO World (closing weight 1.3%) -1.0% decided to go for growth rather than profitability as it expands aggressively in the German market with its "appliances on-line" model.

First Derivatives (position sold during the year) -0.9%. This software company has not recovered from the untimely death of founder and major shareholder Brian Conlan.

### **Dealing and Activity**

As ever, our investment process has driven stock selection with new purchases having high Matrix scores and sales either having lower Matrix scores or are stocks which are too big to be described as smaller companies. The new factor in the past year has been the return of the New Issues markets. It is pleasing to see good

quality UK based companies listed on the London Stock Exchange and the portfolio activity demonstrates our confidence in that quality.

Fourteen new holdings were added to the portfolio of which five were new issues. The nine established companies were: Impax Asset Management, the specialist ESG orientated fund manager, AO World, the on-line white goods retailer, **Clipper Logistics**, the leading supplier of logistics services to the on-line retail industry, Mortgage Advice Bureau, the IT and services platform for home mortgage providers, Draper Esprit, the specialist technology orientated venture capital investor, Treatt, the flavours and fragrances specialist, Hollywood Bowl in ten pin bowling, CVS Group, the veterinary chain, and Watches of Switzerland, the luxury watch retailer. The five new issues were Bytes Technology Group, the broadly based UK orientated IT hardware, software and services provider, **Auction Technology Group (ATG)**, the global on-line auction technology provider, **Moonpig**, the on-line greetings and gifting company, **Trustpilot**, the product and service review platform and Victorian Plumbing, the on-line plumbing products supply company. At the time of writing, all the new issues are ahead of their float price with ATG in particular up 126%.

The company sold out of the following stocks completely: Greggs, Paypoint, Paragon, Midwich, Ricardo, Paypoint, FDM and Workspace over concerns on trading during an extended lock down. Matrix scores were weak here. At the very start of the period, Boohoo was sold completely on concerns that the management were not taking seriously enough the work practices of their suppliers. Trainline was sold following the announcement that the new rail Authority, GB Rail, was planning to build its own on-line ticketing system. First Derivatives was sold as its Matrix score fell precipitating a review of the investment thesis. It had been held by the Company since 2008 and delivered returns to shareholders approaching ten times cost.

JD Sports and Aveva were sold because they have been so successful that they have both become constituents of the FTSE 100 Index and, in line with our investment policy, they no longer qualify as small cap companies. Dechra Pharmaceuticals likewise was also sold because it had become too big to be described as a smaller company.

The biggest purchases were:-

Mortgage Advice Bureau (MAB) is a platform that provides a range of back office services on its platform to mortgage advisers who in turn advise the public on home loan providers. MAB provides a range of services including regulatory, pricing and accounting services.

Clipper Logistics is a value added distributor for a range of on-line retailers in the UK, providing a range of fulfilment services.

Auction Technology Group (ATG) is a global leader in the provision of curated market places using proprietary auction platform technology to connect bidders, businesses, collectors, consigners and consumers across a variety of markets worldwide.

Treatt develops and manufactures the raw materials that go into fragrances and flavourings by blending and distilling oils and aromatic chemicals to a wide range of end of consumer goods end markets.

Bytes Technology Group is a supplier of IT and communications software and hardware across the UK, not dissimilar to Computacenter. Its track record is strong.

## **Sector Exposures**

The investment process is centred on identifying individual companies that will grow and deliver returns to shareholders and, as a consequence, sector exposure is a by-product of these decisions. Our leading sectors are software, leisure goods, support services, media, food manufacturers, real estate, telecoms and financials. Leisure goods, media and financials saw the biggest increases during the year. Leisure goods has benefitted from activities that keep the youngsters amused at home, such as computer and hobby games and technology through holdings such as Team17, Sumo, Games Workshop and Focusrite. Financials has recently become the largest sector as we have targeted a number of high Matrix scoring niches such as funds administration (JTC, Sanne), specialist fund managers (Liontrust Asset Management, Impax Asset Management, Draper Esprit) and investment platforms (AJ Bell, Mortgage Advice Bureau). Media has been a strong performer under the influence of digital technology through the likes of Future, Next15 Communications, GlobalData and Trustpilot. Retailing has also made an on-line comeback with Motorpoint (used cars delivered to your door), AO World (on-line white goods), Moonpig (greeting cards and gifts) and Victorian Plumbing in on-line plumbing kit. This area is liable to see further growth as global franchises and technology continue to develop as lock downs ease.

The Company holds no materials, oil & gas, household goods and home construction and remains underweight in healthcare.

### **Gearing**

At the end of the year, net gearing stood at 5.7% of net assets. The facilities were agreed in November 2017 and at the time the total funding of £45 million represented about 15% of net assets. In the 3 ½ years since then, net assets have more than doubled and today, if the facility was fully drawn, the Company could not be more than around 6% geared. Consequently, in May 2021, the Board arranged an expansion of the revolving credit facility to take total funding to £65 million. Gearing has been steadily increased since around November, reflecting our positive view on smaller companies, and since June the facility has been fully drawn.

### **Outlook**

It feels like the recovery rally phase is over and has been fierce but short term. Under-performance has taken place into rising markets thus absolute returns have still been respectable. We expect to be able to look forward to sustained strong performance from small and mid-sized companies and more robust relative performance from our process as the cycle develops. This is typical of the first half of an economic cycle. We thus feel pretty positive about the short and long-term outlook for smaller companies as we see the continuation of the new economic cycle which effectively started on 19 March 2020. The improvements will come in fits and starts but commencing with the vaccine announcements last year and the assumption that Covid will soon be on the retreat. The worst unknowns of Brexit are now largely behind us. The biggest issue currently looks likely to be the risk of inflation. We are seeing significant supply chain dislocation and a return to labour shortages and wage inflation, not seen for a very long time. Our best guess is that this is short term and relates to the sudden and binary aspects of the influence of Covid. If anything, our process may be seen as an each way bet if that is not too strong an expression. If markets suffer because of inflation, the high quality, defensive characteristics of our process will cushion the blow somewhat. Finally, President Biden in the US brings a welcome level of sanity and predictability to that divided country. While geo-political issues are unlikely to go away, it is helpful to see that a sense of rationality has returned.

We should say a word about ESG issues and how this area influences our investment process and drives markets. Without impacting the long-term stability and strength of our Matrix driven quality, growth and momentum ("QGM") investment process, we have, in recent years, built comprehensive ESG thinking more formally into our process. Even though subliminally we have been there for many years, it is of note what we said earlier about the mining and oil & gas sectors. In smaller companies, these sectors are gaining pariah status which is not likely to go away as concerns over the environment and global warming impacts how people live their lives.

The new issues market was the most pleasant surprise of the year. After a fallow period, the recent crop of new issues suggests that the UK is punching above its weight at developing new world leading businesses that are transformational. The top half of the FTSE 100 Index larger company market is indeed a dull place, with a last century feel about it, dominated by companies with "great futures behind them". This is not the case in the UK small and mid-cap world, certainly judging by some of the current crop of British companies coming to the market.

Valuation has always been secondary when it comes to stock selection. Nevertheless, as we look down the list of names in the portfolio, we find four out of our top ten with price earnings ratios in the teens. We haven't seen the largest positions trading on such low multiples for a while, which suggests to us that, after the recent market rotation, a significant number of our Quality, Growth and Momentum-led holdings are looking cheap.

A glance at the recent trading statements of the Company's holdings shows them to be overwhelmingly positive, with many upgrades, reinstated dividends and the paying back of furlough grants, which is very encouraging.

Having said that, there are clearly still clouds on the horizon as new variants of the virus appear, returns to normality are delayed, vaccine issues continue and the impact of Brexit filter through. Unemployment is likely to rise dramatically in the next six months as furlough comes to an end. Bearing in mind that the market typically looks two years ahead, we are comfortable that we are past the worst, that we are in a new economic cycle and that the next couple of years will be a good time for smaller companies relative to large caps.

As we have stressed before, our process remains unchanged. Our emphasis on risk aversion, resilience, growth and momentum still feels right for the future. Caution should be the watch-word however.

Smaller company investing should be viewed as a long-term investment and we have no doubt that patient investors will be rewarded in the longer term. Our stable process has been seasoned by fully four economic cycles. We remain very optimistic about the future of the Company in the long term.

Harry Nimmo and Abby Glennie  
Aberdeen Standard Investments  
6 September 2021

## PORTFOLIO - INVESTMENT PORTFOLIO

As at 30 June 2021

Company	Sector	Valuation 2021 £'000	Total portfolio %	Valuation 2020 £'000
Future	Media	37,256	4.8	19,885
Gamma Communications	Telecommunications Service Providers	31,807	4.1	23,451
Kainos	Software and Computer Services	30,624	4.0	20,058
XP Power	Electronic and Electrical Equipment	26,674	3.5	16,731
Impax Asset Management	Investment Banking and Brokerage Services	22,322	2.9	-
Hilton Food Group	Food Producers	20,313	2.6	21,709
Cranswick	Food Producers	19,659	2.6	17,896
Safestore Holdings	Real Estate Investment Trusts	19,471	2.6	14,917
Games Workshop	Leisure Goods	18,736	2.4	24,212
Diploma	Industrial Support Services	18,621	2.4	18,517
<b>Top ten investments</b>		<b>245,483</b>	<b>31.9</b>	
Alpha Financial Markets	Industrial Support Services	18,451	2.4	6,847
Team 17	Leisure Goods	17,502	2.3	12,199
discoverIE Group	Technology Hardware and Equipment	17,266	2.2	9,335
Bytes Technology Group	Software and Computer Services	17,141	2.2	-
Clipper Logistics	Industrial Support Services	16,985	2.2	-
Marshalls	Construction and Materials	16,733	2.2	15,024
Mortgage Advice Bureau	Finance and Credit Services	16,634	2.2	-
GB Group	Software and Computer Services	16,628	2.1	13,408
Focusrite	Leisure Goods	16,344	2.1	5,931
GlobalData	Media	15,479	2.0	13,803
<b>Top twenty investments</b>		<b>414,646</b>	<b>53.8</b>	
Auction Technology Group	Software and Computer Services	15,414	2.0	-
Next 15 Communications	Media	14,722	1.9	5,429
Liontrust Asset Management	Investment Banking and Brokerage Services	14,567	1.9	5,341
AJ Bell	Investment Banking and Brokerage Services	14,052	1.8	10,578
Hill & Smith Holdings	Industrial Metals and Mining	14,011	1.8	11,667
Intermediate Capital Group	Investment Banking and Brokerage Services	13,682	1.8	8,301
Sirius Real Estate	Real Estate Investment and Services	13,427	1.8	5,683
Ergomed	Pharmaceuticals and Biotechnology	13,338	1.7	-
Watches of Switzerland	Personal Goods	12,992	1.7	-
Morgan Sindall Group	Construction and Materials	12,900	1.7	3,272
<b>Top thirty investments</b>		<b>553,751</b>	<b>71.9</b>	
Treatt	Chemicals	12,769	1.7	-
RWS	Industrial Support Services	12,767	1.7	16,471
JTC	Investment Banking and Brokerage Services	11,861	1.5	8,015
Sanne Group	Investment Banking and Brokerage Services	11,601	1.5	8,784
Draper Esprit	Investment Banking and Brokerage	10,886	1.4	-

	Services			
AO World	Retailers	10,506	1.3	-
Midwich	Industrial Support Services	10,082	1.3	8,473
Telecom Plus	Telecommunications Service Providers	9,706	1.3	10,745
Gear4Music	Leisure Goods	9,321	1.2	3,072
Sumo Group	Leisure Goods	9,149	1.2	752
<b>Top forty investments</b>		<b>662,399</b>	<b>86.0</b>	
Trustpilot	Software and Computer Services	8,567	1.1	-
4imprint Group	Media	8,155	1.1	11,704
Big Yellow	Real Estate Investment Trusts	8,005	1.0	9,277
Jet2 (previously known as Dart Group)	Travel and Leisure	7,482	1.0	8,942
Robert Walters	Industrial Support Services	7,302	1.0	3,787
CVS Group	Consumer Services	7,145	0.9	-
Boot (Henry)	Real Estate Investment and Services	7,011	0.9	5,865
Motorpoint	Retailers	6,701	0.9	4,787
Avon Rubber	Aerospace and Defense	6,515	0.8	5,231
Mattioli Woods	Investment Banking and Brokerage Services	6,380	0.8	6,118
<b>Top fifty investments</b>		<b>735,662</b>	<b>95.5</b>	
Victorian Plumbing	Retailers	6,141	0.8	-
Gooch & Housego	Technology Hardware and Equipment	5,982	0.8	4,970
Inspecc Group	Personal Goods	5,481	0.7	-
Moonpig	Retailers	4,900	0.6	-
Hotel Chocolat	Food Producers	4,327	0.6	2,520
Hollywood Bowl	Travel and Leisure	3,554	0.5	-
AB Dynamics	Industrial Engineering	2,439	0.3	1,858
Fisher (James) & Sons	Industrial Transportation	1,517	0.2	8,826
<b>Total portfolio</b>		<b>770,003</b>	<b>100.0</b>	

All investments are equity investments.

**PORTFOLIO – SECTOR DISTRIBUTION OF INVESTMENTS**  
**As at 30 June 2021**

	<b>Portfolio weighting</b>	
	<b>2021</b>	<b>2020</b>
	%	%
<b>Consumer Discretionary</b>	27.4	26.7
Consumer Services	0.9	-
Leisure Goods	9.2	8.8
Media	9.8	9.6
Personal Goods	2.4	-
Retailers	3.6	4.2
Travel and Leisure	1.5	4.1
<b>Consumer Staples</b>	5.8	9.5
Food Producers	5.8	8.0
Personal Care Drug and Grocery Stores	-	1.5
<b>Financials</b>	15.8	9.9
Finance and Credit Services	2.2	0.9
Investment Banking and Brokerage Services	13.6	9.0
<b>Health Care</b>	1.7	1.8
Pharmaceuticals and Biotechnology	1.7	1.8
<b>Basic Materials</b>	3.5	2.2
Chemicals	1.7	-
Industrial Metals and Mining	1.8	2.2
<b>Industrials</b>	19.7	22.4
Aerospace and Defense	0.8	1.0
Construction and Materials	3.9	3.9
Electronic and Electrical Equipment	3.5	3.2
Industrial Engineering	0.3	0.4
Industrial Support Services	11.0	12.2
Industrial Transportation	0.2	1.7
<b>Technology</b>	14.4	12.8
Software and Computer Services	11.4	10.1
Technology Hardware and Equipment	3.0	2.7
<b>Real Estate</b>	6.3	8.3
Real Estate Investment and Services	2.7	2.2
Real Estate Investment Trusts	3.6	6.1
<b>Telecommunications</b>	5.4	6.4
Telecommunications Service Providers	5.4	6.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## **DIRECTORS' REPORT (EXTRACT)**

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2021.

### **Results and Dividends**

The financial statements for the year ended 30 June 2021 are contained below. An interim dividend of 2.70p per Ordinary share was paid on 9 April 2021 and the Directors recommend a final dividend of 5.00p per Ordinary share, payable on 29 October 2021 to shareholders on the register on 8 October 2021. The ex-dividend date is 7 October 2021.

### **Principal Activity and Status**

The Company is registered as a public limited company in Scotland under company number SC145455, is an investment company within the meaning of Section 833 of the Companies Act 2006 and carries on business as an investment trust.

The Company has applied for and has been accepted as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. This approval relates to accounting periods commencing on or after 1 July 2012. The Directors are of the opinion that the Company has conducted its affairs so as to be able to retain such approval.

The Company intends to manage its affairs so that its Ordinary shares continue to be a qualifying investment for inclusion in the stocks and shares component of an Individual Savings Account.

### **Capital Structure and Voting Rights**

The Company's issued share capital at 30 June 2021 consisted of 98,682,566 (2020: 100,065,198) Ordinary shares of 25 pence each and there were 5,481,856 (2020: 4,099,224) Ordinary shares held in treasury, representing 5.6% of the issued share capital as at that date (excluding treasury shares).

During the year, 1,382,632 Ordinary shares were bought back into treasury.

Since the year end, the Company has bought back a further 809,108 Ordinary shares into treasury. Accordingly, as at the date of this Report, the Company's issued share capital consisted of 97,873,458 Ordinary shares of 25 pence each and 6,290,964 Ordinary shares held in treasury.

Each ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary share held.

### **Management Agreement**

The Company has appointed Aberdeen Standard Fund Managers Limited ("ASFML"), a wholly owned subsidiary of abrdn plc, as its Alternative Investment Fund Manager (the "Manager"). ASFML has been appointed to provide investment management, risk management, administration and company secretarial services, and promotional activities to the Company. The Company's portfolio is managed by Standard Life Investments Limited (the "Investment Manager") by way of a group delegation agreement in place between it and ASFML. In addition, ASFML has sub-delegated administrative and secretarial services to Aberdeen Asset Management PLC and promotional activities to Aberdeen Asset Managers Limited.

The management fee is calculated quarterly in arrears as 0.85% per annum applying to the first £250 million of the Company's net assets, 0.65% per annum applying to net assets above this threshold until £550 million, and 0.55% applying to net assets above this threshold.

In addition, the Manager receives a secretarial and administration fee of £75,000 plus VAT per annum with effect from 1 January 2021. Prior to this date, the secretarial and administration fee was £110,000 per annum, as updated by movements in RPI. A fee of 0.02% of the net asset value of the Company in excess of £70 million was also payable and the fee was capped at £150,000 plus VAT in total per annum.

The Manager also receives a separate fee for the provision of promotional activities to the Company.

Further details of the fees payable to the Manager are shown in notes 4 and 5 to the financial statements.

The management agreement is terminable on not less than six months' notice. In the event of termination by the Company on less than the agreed notice period, compensation is payable to the Manager in lieu of the unexpired notice period.

## External Agencies

The Board has contractually delegated to external agencies, including the Manager and other service providers, certain services including: the management of the investment portfolio, the day-to-day accounting and company secretarial requirements, the depositary services (which include cash monitoring, the custody and safeguarding of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements) and the share registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered in so far as they relate to the affairs of the Company. In addition, ad hoc reports and information are supplied to the Board as requested.

## Substantial Interests

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure, Guidance and Transparency Rules are published by the Company via a Regulatory Information Service.

The table below sets out the interests in 3% or more of the issued share capital of the Company, of which the Board was aware as at 30 June 2021.

Shareholder	Number of Ordinary shares	% held
Hargreaves Lansdown	10,842,849	11.0
Brewin Dolphin	10,584,514	10.7
Interactive Investor	9,562,441	9.7
Aberdeen Standard Investments Retail Plans	6,762,946	6.8
Rathbones	4,886,462	4.9
M&G Investment Management	3,961,300	4.0
Investec Wealth & Investment	3,738,755	3.8
AJ Bell	3,669,690	3.7
1607 Capital Partners	3,656,860	3.7

Since the year end, Brewin Dolphin has notified the Company of a reduction in its holding to 9,786,178 Ordinary shares (10.0%). The Company has not been notified of any other changes to the above holdings as at the date of this Report.

## Directors

Liz Airey is the Chairman and Tim Scholefield is the Senior Independent Director.

All of the Directors will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

The Board has carried out an annual review of its own performance and effectiveness which it undertook through individually completed questionnaires and follow up discussion. It concluded that the Board continues to operate well and effectively and is focussing on the right issues in its work to promote the success of the Company and that each Director makes a significant contribution to the Board.

The Directors attended scheduled Board and Committee meetings during the year ended 30 June 2021 as follows (with their eligibility to attend the relevant meetings in brackets):

	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings	Nomination Committee Meetings
Liz Airey	5 (5)	- (-)	2 (2)	1 (1)
Ashton Bradbury	5 (5)	2 (2)	2 (2)	1 (1)
Alexa Henderson	5 (5)	2 (2)	2 (2)	1 (1)
Caroline Ramsay	5 (5)	2 (2)	2 (2)	1 (1)
Tim Scholefield	5 (5)	2 (2)	2 (2)	1 (1)

The Board meets more frequently when business needs require. During the year ended 30 June 2021 this included a Board meeting to approve an increase in the size of the Company's loan facility and Board Committee meetings to approve the annual and half yearly financial statements. All Directors were present at these meeting. All Directors attended the Annual General Meeting held on 21 October 2020 which was held as a functional-only meeting linked by video.

The Board believes that all the Directors seeking re-election remain independent of the Manager and free from any relationship which could materially interfere with the exercise of their judgement on issues of strategy, performance, resources and standards of conduct. The Board believes that each Director has the requisite high level and range of business, investment and financial experience which enables the Board to provide clear and effective leadership and proper governance of the Company. Following formal performance evaluations, each Director's performance continues to be effective and demonstrates commitment to the role, and their individual performances contribute to the long-term sustainable success of the Company. In addition, all Directors have demonstrated that they have sufficient time to fulfil their directorial roles with the Company. The Board therefore recommends the re-election of each of the Directors at the Annual General Meeting.

### **Board's Policy on Tenure**

In normal circumstances, it is the Board's expectation that Directors will not serve beyond the Annual General Meeting following the ninth anniversary of their appointment. However, the Board takes the view that independence of individual Directors is not necessarily compromised by length of tenure on the Board and that continuity and experience can add significantly to the Board's strength. The Board believes that recommendation for re-election should be on an individual basis following a rigorous review which assesses the contribution made by the Director concerned, but also taking into account the need for regular refreshment and diversity.

It is the Board's policy that the Chairman of the Board will not normally serve as a Director beyond the Annual General Meeting following the ninth anniversary of his or her appointment to the Board. However, this may be extended in certain circumstances or to facilitate effective succession planning and the development of a diverse Board. In such a situation the reasons for the extension will be fully explained to shareholders and a timetable for the departure of the Chairman clearly set out.

### **The Role of the Chairman and Senior Independent Director**

The Chairman is responsible for providing effective leadership to the Board, by setting the tone of the Company, demonstrating objective judgement and promoting a culture of openness and debate. The Chairman facilitates the effective contribution and encourages active engagement by each Director. In conjunction with the Company Secretary, the Chairman ensures that Directors receive accurate, timely and clear information to assist them with effective decision-making. The Chairman acts upon the results of the Board evaluation process by recognising strengths and addressing any weaknesses and also ensures that the Board engages with major shareholders and that all Directors understand shareholder views.

The Senior Independent Director acts as a sounding board for the Chairman and acts as an intermediary for other Directors, when necessary. Working closely with the Nomination Committee, the Senior Independent Director takes responsibility for an orderly succession process for the Chairman, and leads the annual appraisal of the Chairman's performance. The Senior Independent Director is also available to shareholders to discuss any concerns they may have.

### **Directors' and Officers' Liability Insurance**

The Company's Articles of Association provide for each of the Directors to be indemnified out of the assets of the Company against any liabilities incurred by them as a Director of the Company in defending proceedings, or in connection with any application to the Court in which relief is granted. Directors' and Officers' liability insurance cover has been maintained throughout the financial year at the expense of the Company.

### **Management of Conflicts of Interest**

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, each Director prepares a list of other positions held and all other conflict situations that may need to be authorised either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential, or actual, conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed at each Board meeting.

No Director has a service contract with the Company although all Directors are issued with letters of appointment. There were no contracts during, or at the end of the year, in which any Director was interested.

The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a group-wide zero-tolerance approach

and has its own detailed policy and procedures in place to prevent bribery and corruption. Copies of the Manager's anti-bribery and corruption policies are available on its website.

In relation to the corporate offence of failing to prevent tax evasion, it is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to facilitation of tax evasion whether under UK law or under the law of any foreign country and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships.

### **Corporate Governance**

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company has applied the principles identified in the UK Corporate Governance Code as published in July 2018 (the "UK Code"), which is available on the Financial Reporting Council's (the "FRC") website: [frc.org.uk](http://frc.org.uk).

The Board has also considered the principles and provisions of the AIC Code of Corporate Governance as published in February 2019 (the "AIC Code"). The AIC Code addresses the principles and provisions set out in the UK Code, as well as setting out additional provisions on issues that are of specific relevance to the Company. The AIC Code is available on the AIC's website: [theaic.co.uk](http://theaic.co.uk). It includes an explanation of how the AIC Code adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC, provides more relevant information to shareholders.

The Board confirms that, during the year, the Company complied with the principles and provisions of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- interaction with the workforce (provisions 2, 5 and 6);
- the role and responsibility of the chief executive (provisions 9 and 14);
- previous experience of the chairman of a remuneration committee (provision 32); and
- executive directors' remuneration (provisions 33 and 36 to 41).

The Board considers that these provisions are not relevant to the position of the Company, being 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.

Full details of the Company's compliance with the AIC Code of Corporate Governance can be found on its website.

### **Matters Reserved for the Board**

The Board sets the Company's objectives and ensures that its obligations to its shareholders are met. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.

These matters include:

- the maintenance of clear investment objectives and risk management policies;
- the monitoring of the business activities of the Company ranging from analysis of investment performance through to review of quarterly management accounts;
- monitoring requirements such as approval of the Half-Yearly Report and Annual Report and financial statements and approval and recommendation of any dividends;
- setting the range of gearing in which the Manager may operate;
- major changes relating to the Company's structure including share buy-backs and share issuance;
- Board appointments and removals and the related terms;
- authorisation of Directors' conflicts or possible conflicts of interest;
- terms of reference and membership of Board Committees;
- appointment and removal of the Manager and the terms and conditions of the Management Agreement relating thereto; and
- London Stock Exchange/Financial Conduct Authority - responsibility for approval of all circulars, listing particulars and other releases concerning matters decided by the Board.

Full and timely information is provided to the Board to enable it to function effectively and to allow the Directors to discharge their responsibilities.

### **Board Committees**

The Board has appointed a number of Committees, as set out below. Copies of their terms of reference, which clearly define the responsibilities and duties of each Committee, are available on the Company's website, or upon request from the Company. The terms of reference of each of the Committees are reviewed and re-assessed by the Board for their adequacy on an ongoing basis.

### **Management Engagement Committee**

The Management Engagement Committee comprises the full Board and is chaired by Tim Scholefield. The main responsibilities of the Management Engagement Committee include:

- monitoring and evaluating the performance of the Manager;
- reviewing at least annually the continued retention of the Manager;
- reviewing, at least annually, the terms of appointment of the Manager including, but not limited to, the level and method of remuneration and the notice period of the Manager; and
- reviewing the performance and remuneration of the other key service providers to the Company.

The Management Engagement Committee met twice during the year to 30 June 2021 and, following a review of performance and the terms of appointment of the Manager, recommended to the Board that the continuing appointment of the Manager was in the best interests of the shareholders and the Company as a whole. In reaching this decision, the Management Engagement Committee considered the Company's long-term performance record and concluded that it remained satisfied with the capability of the abrdn Group to deliver satisfactory investment performance, that its investment screening processes are thorough and robust and that it employs a well-resourced team of skilled and experienced fund managers. In addition, the Management Engagement Committee is satisfied that the abrdn Group has the secretarial, administrative and promotional skills required for the effective operation and administration of the Company.

### **Nomination Committee**

The Nomination Committee comprises the full Board and is chaired by Liz Airey. The main responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience, diversity and gender) of the Board;
- undertaking succession planning, taking into account the challenges and opportunities facing the Company and identifying candidates to fill vacancies;
- recruiting new Directors, undertaking open advertising or engaging external advisers to facilitate the search, as appropriate, with a view to considering candidates from a wide range of backgrounds, on merit, and with due regard for the benefits of diversity on the Board, taking care to ensure that appointees have enough time available to devote to the position;
- ensuring that new appointees receive a formal letter of appointment and suitable induction and ongoing training;
- arranging for annual Board performance evaluations to ensure that Directors are able to commit the time required to properly discharge their duties;
- making recommendations to the Board as to the position of Chairman, Senior Independent Director and Chairmen of the Nomination, Audit and Management Engagement Committees;
- assessing, on an annual basis, the independence of each Director;
- approving the re-election of any Director, subject to the UK Code, the AIC Code, or the Articles of Association, at the Annual General Meeting, having due regard to their performance, ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board; and
- determining the Directors' remuneration policy and level of remuneration, including for the Chairman.

During the year, the Nomination Committee undertook an annual appraisal of the Chairman of the Board, individual Directors and the performance of Committees and the Board as a whole. This process involved the completion of questionnaires by each Director and follow-on discussions between the Chairman and each Director. The appraisal of the Chairman was undertaken by the Senior Independent Director. The results of the process were discussed by the Board following its completion, with appropriate action points made. Following this process, the Board concluded that it continues to operate well and effectively and is focussing on the right issues in its work to promote the success of the Company and that each Director makes a significant contribution to the Board. The Committee's intention is that the evaluation process in 2022 will be externally facilitated.

## **Going Concern**

The Company's assets consist mainly of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants. The Board has also performed stress testing and liquidity analysis.

As at 30 June 2021, the Company had a £65 million unsecured loan facility agreement with The Royal Bank of Scotland International Limited which matures on 31 October 2022. This consists of a five year, fixed-rate term loan facility of £25 million and a revolving credit facility of £40 million.

The Directors are mindful of the Principal Risks and Uncertainties disclosed in the Strategic Report and they believe that the Company has adequate financial resources to continue its operational existence for a period of not less than 12 months from the date of approval of this Report. They have arrived at this conclusion having confirmed that the Company's diversified portfolio of realisable securities is sufficiently liquid and could be used to meet short-term funding requirements were they to arise, including in current market conditions caused by the Covid-19 pandemic. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Statement of Financial Position as at 30 June 2021 which shows net current liabilities of £16.8 million at that date. Taking all of this into account, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

## **Accountability and Audit**

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Independent Auditor was unaware, and that each Director has taken all the steps that they might reasonably be expected to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Independent Auditor was aware of that information.

## **Independent Auditor**

Shareholders approved the re-appointment of KPMG LLP as the Company's Independent Auditor at the AGM on 21 October 2020 and resolutions to approve its re-appointment for the year to 30 June 2022 and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

## **Financial Instruments**

The financial risk management objectives and policies arising from financial instruments and the exposure of the Company to risk are disclosed in note 17 to the financial statements.

## **Relations with Shareholders**

The Directors place a great deal of importance on communications with shareholders. Shareholders and investors may obtain up to date information on the Company through its website and the Manager's Customer Services Department (see Contact Addresses).

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (including the Company Secretary or the Manager) in situations where direct communication is required, and representatives from the Manager meet with major shareholders on at least an annual basis in order to gauge their views, and report back to the Board on these meetings. In addition, the Company Secretary only acts on behalf of the Board, not the Manager, and there is no filtering of communication. At each Board meeting the Board receives full details of any communication from shareholders to which the Chairman responds personally as appropriate.

The Company's Annual General Meeting usually provides a forum for communication primarily with private shareholders and is attended by the Board. The Manager makes a presentation to the meeting and all shareholders have the opportunity to put questions to both the Board and the Manager at the meeting. The Manager also hosts a regular 'Meet the Manager' session at which members of the Board are present and to which all shareholders are invited.

The notice of the Annual General Meeting is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions to the Board and Manager at the meeting.

## **Additional Information**

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by Part 15 of the Companies Act 2006.

There are no restrictions on the transfer of Ordinary shares in the Company issued by the Company other than certain restrictions which may from time to time be imposed by law (for example, the Market Abuse Regulation). The Company is not aware of any agreements between shareholders that may result in a transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Directors' Remuneration Report. The Company's Articles of Association may only be amended by a special resolution passed at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover. Other than the management agreement with the Manager, the Company is not aware of any contractual or other agreements which are essential to its business which could reasonably be expected to be disclosed in the Directors' Report.

### **Annual General Meeting**

The Notice of the Annual General Meeting ("AGM"), which will be held on Thursday, 21 October 2021.

Given the risks posed by the spread of the Covid-19 virus and in accordance with Government guidance, physical attendance at the Annual General Meeting may not be possible. If the law or Government guidance so requires at the time of the meeting, the Chairman will limit, in his or her sole discretion, the number of individuals in attendance at the meeting. Should Government measures be relaxed by the time of the meeting, the Company may still impose entry restrictions on certain persons wishing to attend the Annual General Meeting in order to ensure the safety of those attending the meeting.

By order of the Board  
Aberdeen Asset Management PLC  
Company Secretary  
1 George Street  
Edinburgh EH2 2LL  
6 September 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland'.

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 judgments and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, but not for the content of any information included on the website that has been prepared or issued by third parties. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's position and performance, business model and strategy; and
- the Strategic Report and Directors' Report include 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 the Company faces.

On behalf of the Board

Liz Airey

Chairman

6 September 2021

## STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2021			Year ended 30 June 2020		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments held at fair value	10	-	213,905	213,905	-	(6,556)	(6,556)
Income	3	8,573	-	8,573	8,744	-	8,744
Investment management fee	4	(1,149)	(3,449)	(4,598)	(985)	(2,953)	(3,938)
Other administrative expenses	5	(828)	-	(828)	(811)	-	(811)
<b>Net return before finance costs and taxation</b>		<b>6,596</b>	<b>210,456</b>	<b>217,052</b>	<b>6,948</b>	<b>(9,509)</b>	<b>(2,561)</b>
Finance costs	6	(204)	(612)	(816)	(201)	(604)	(805)
<b>Return before taxation</b>		<b>6,392</b>	<b>209,844</b>	<b>216,236</b>	<b>6,747</b>	<b>(10,113)</b>	<b>(3,366)</b>
Taxation	7	-	-	-	-	-	-
<b>Return after taxation</b>		<b>6,392</b>	<b>209,844</b>	<b>216,236</b>	<b>6,747</b>	<b>(10,113)</b>	<b>(3,366)</b>
<b>Return per Ordinary share (pence)</b>	9	<b>6.43</b>	<b>211.01</b>	<b>217.44</b>	<b>6.74</b>	<b>(10.10)</b>	<b>(3.36)</b>

The total column of this statement represents the profit and loss account of the Company. The 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the Financial Statements.

## STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	10	770,003	527,040
<b>Current assets</b>			
Debtors	11	2,238	879
Investments in AAA-rated money market funds		22,636	26,465
Cash and short term deposits		95	49
		24,969	27,393
<b>Current liabilities</b>			
Creditors: other amounts falling due within one year	12	(1,775)	(1,443)
Bank loan	12,13	(40,000)	-
		(41,775)	(1,443)
<b>Net current (liabilities)/assets</b>		(16,806)	25,950
<b>Total assets less current liabilities</b>		753,197	552,990
<b>Creditors: amounts falling due after more than one year</b>			
Bank loan	13	(24,951)	(24,914)
<b>Net assets</b>		<b>728,246</b>	<b>528,076</b>
<b>Capital and reserves</b>			
Called-up share capital	14	26,041	26,041
Share premium account		170,146	170,146
Special reserve		20,132	28,534
Capital reserve	15	504,395	294,551
Revenue reserve		7,532	8,804
<b>Equity shareholders' funds</b>		<b>728,246</b>	<b>528,076</b>
<b>Net asset value per Ordinary share (pence)</b>	16	<b>737.97</b>	<b>527.73</b>

The accompanying notes are an integral part of the Financial Statements.

## STATEMENT OF CHANGES IN EQUITY

### For the year ended 30 June 2021

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2020	26,041	170,146	28,534	294,551	8,804	528,076
Return after taxation	-	-	-	209,844	6,392	216,236
Buyback of Ordinary shares into Treasury (see note 14)	-	-	(8,402)	-	-	(8,402)
Dividends paid (see note 8)	-	-	-	-	(7,664)	(7,664)
<b>Balance at 30 June 2021</b>	<b>26,041</b>	<b>170,146</b>	<b>20,132</b>	<b>504,395</b>	<b>7,532</b>	<b>728,246</b>

### For the year ended 30 June 2020

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2019	26,041	170,146	30,977	304,664	10,866	542,694
Return after taxation	-	-	-	(10,113)	6,747	(3,366)
Buyback of Ordinary shares into Treasury (see note 14)	-	-	(2,443)	-	-	(2,443)
Dividends paid (see note 8)	-	-	-	-	(8,809)	(8,809)
<b>Balance at 30 June 2020</b>	<b>26,041</b>	<b>170,146</b>	<b>28,534</b>	<b>294,551</b>	<b>8,804</b>	<b>528,076</b>

The capital reserve at 30 June 2021 is split between realised of £179,141,000 and unrealised of £325,254,000 (30 June 2020 - realised £139,823,000 and unrealised £154,728,000).

The Company's reserves available to be distributed by way of dividends or buybacks which includes the revenue reserve and the realised element of the capital reserve amount to £186,673,000 (30 June 2020 - £148,627,000). In addition, the special reserve of £20,132,000 (30 June 2020 - £28,534,000) is available to fund buy backs but cannot be used to pay dividends.

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CASHFLOWS

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Operating activities</b>		
Net return before taxation	216,236	(3,366)
<i>Adjustment for:</i>		
(Gains)/losses on investments	(213,905)	6,556
(Increase)/decrease in accrued dividend income	(994)	880
Decrease in accrued interest income	7	5
Finance costs	816	805
Increase in other debtors	(3)	(2)
Increase in other creditors	281	19
Overseas withholding tax received	-	21
<b>Net cash inflow from operating activities</b>	<u>2,438</u>	<u>4,918</u>
<b>Investing activities</b>		
Purchases of investments	(188,635)	(84,429)
Sales of investments	159,116	101,466
Purchases of AAA-rated money market funds	(150,977)	(99,397)
Sales of AAA-rated money market funds	154,806	88,843
<b>Net cash (outflow)/inflow from investing activities</b>	<u>(25,690)</u>	<u>6,483</u>
<b>Financing activities</b>		
Bank and loan interest paid	(756)	(768)
Repurchase of Ordinary shares into Treasury	(8,282)	(2,443)
Drawdown of loan	40,000	20,000
Repayment of loan	-	(20,000)
Equity dividends paid	(7,664)	(8,809)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>23,298</u>	<u>(12,020)</u>
<b>Increase/(decrease) in cash</b>	<u>46</u>	<u>(619)</u>
<b>Analysis of changes in cash during the year</b>		
Opening balance	49	668
Increase/(decrease) in cash as above	46	(619)
<b>Closing balance</b>	<u>95</u>	<u>49</u>

The accompanying notes are an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS:**  
**For the year ended 30 June 2021**

1. **Principal activity.** The Company is a closed-end investment company, registered in Scotland No SC145455, with its Ordinary shares being listed on the London Stock Exchange.

2. **Accounting policies**

a) **Basis of accounting and going concern.** The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in April 2021. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The Company's assets consist mainly of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants. The Board has also performed stress testing and liquidity analysis.

The Company does not have a fixed life and, under the Articles of Association, there is no requirement for a continuation vote.

The Company has a £65 million unsecured loan facility agreement with The Royal Bank of Scotland International Limited which matures on 31 October 2022. This consists of a five year, fixed-rate term loan facility of £25 million and a revolving credit facility of £40 million. The Board has set limits for borrowing and regularly reviews the Company's gearing levels and its compliance with bank covenants. A replacement option would be sought in advance of the expiry of the facility on 31 October 2022, or, should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of equity sales as required. The Board has considered the impact of COVID-19 and believe that this will have a limited financial impact on the Company's operational resources and existence. The results of stress testing prepared by the Manager, which models a sharp decline in market levels and income, demonstrated that the Company had the ability to raise sufficient funds so as to remain within its debt covenants and pay expenses. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Statement of Financial Position as at 30 June 2021 which shows net current liabilities of £16.8 million at that date.

Taking the above factors into consideration, and acknowledging that the Company has net current liabilities at the year end, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

The accounting policies applied are unchanged from the prior year and have been applied consistently.

b) **Investments.** Investments have been designated upon initial recognition as fair value through profit or loss in accordance with IAS 39. As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments. This is done because all investments are considered to form part of a group of financial assets which is evaluated on a fair value basis, in accordance with the Company's documented investment strategy, and information about the grouping is provided internally on that basis.

Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery to be made within the timeframe established by the market concerned, and are measured initially at fair value. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all the FTSE All-Share and the most liquid AIM constituents.

Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Statement of Comprehensive Income and are ultimately recognised in the capital reserve.

- c) **AAA-rated money market funds.** The AAA money market funds are used by the Company to provide additional short term liquidity. Due to their short term nature, they are recognised in the Financial Statements as a current asset and are included at fair value through profit and loss.
- d) **Income.** Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to revenue or capital in the Statement of Comprehensive Income, according to the circumstances of the underlying payment. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short-term deposits and money market funds is accounted for on an accruals basis.
- e) **Expenses and interest payable.** Expenses are accounted for on an accruals basis. Expenses are charged to the capital column of the Statement of Comprehensive Income when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated 25% to revenue and 75% to the capital columns of the Statement of Comprehensive Income in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see notes 4 and 6).  
Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Statement of Comprehensive Income.
- f) **Dividends payable.** Dividends are recognised in the period in which they are paid.
- g) **Nature and purpose of reserves**
- Called-up share capital.** The Ordinary share capital on the Statement of Financial Position relates to the number of shares in issue and in treasury. Only when the shares are cancelled, either from treasury or directly, is a transfer made to the capital redemption reserve. This reserve is not distributable.
- Share premium account.** The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising Ordinary shares of 25p. This reserve is not distributable.
- Special reserve.** The special reserve arose following court approval for the cancellation of the share premium account balance at 24 June 1999 and on 13 October 2009, Court of Session approval was granted for the cancellation of the Company's entire share premium account and capital redemption reserve and subsequent creation of a special distributable capital reserve. The special reserve is used to fund share purchases of its own Ordinary shares by the Company.
- Capital reserve.** Gains or losses on disposal of investments and changes in fair values of investments are transferred to the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this reserve. The part of this reserve represented by realised capital gains is available for distribution by way of share buybacks and dividends.
- Revenue reserve.** Income and expenses which are recognised in the revenue column of the Statement of Comprehensive Income are transferred to the revenue reserve. The revenue reserve is available for distribution including by way of dividend.
- h) **Taxation.** Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the year end date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the year end date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.  
Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

- i) **Foreign currency.** Non-monetary assets and liabilities denominated in foreign currency carried at fair value through profit or loss are converted into Sterling at the rate of exchange ruling at the year end date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Statement of Comprehensive Income.
- j) **Judgements and key sources of estimation uncertainty.** Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the Financial Statements. There are no significant estimates or judgements which impact these Financial Statements.
- k) **Cash and cash equivalents.** Cash comprises bank balances and cash held by the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- l) **Bank borrowing.** Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the straight line method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.
- m) **Treasury shares.** When the Company purchases its Ordinary shares to be held in treasury, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effect, and is recognised as a deduction from the special reserve. When these shares are sold subsequently, the amount received is recognised as an increase in equity, and any resulting surplus on the transaction is transferred to the share premium account and any resulting deficit is transferred from the capital reserve.

### 3. Income

	2021 £'000	2020 £'000
<b>Income from investments</b>		
UK dividend income	6,394	6,675
Property income distributions	867	1,143
Overseas dividend income	1,054	466
Special dividends	232	288
	<b>8,547</b>	<b>8,572</b>
<b>Other income</b>		
Interest from AAA-rated money market funds	26	172
Total income	<b>8,573</b>	<b>8,744</b>

### 4. Investment management fee

	2021			2020		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Investment management fee</b>	<b>1,149</b>	<b>3,449</b>	<b>4,598</b>	<b>985</b>	<b>2,953</b>	<b>3,938</b>

The balance due to Aberdeen Standard Fund Managers Limited ("ASFML") at the year end was £1,264,000 (2020 - £983,000). For further details see note 21.

### 5. Administrative expenses (inclusive of VAT)

	2021 £'000	2020 £'000
Secretarial fees <sup>A</sup>	135	180
Promotional activities <sup>A</sup>	180	120
Directors' fees	135	150

Auditor's remuneration:		
- fees payable to the Company's Independent Auditor for the audit of the annual accounts (excluding VAT)	33	26
- VAT on audit fees	6	5
Registrar's fees	26	26
Professional fees	45	46
Custody fees	29	25
Depository fees	92	101
Other expenses	147	132
	<b>828</b>	<b>811</b>

<sup>A</sup> The Company has an agreement with ASFML for the provision of secretarial services and promotional activities. Secretarial fees payable during the year, inclusive of VAT, were £135,000 (2020 - £180,000) and the amount due to ASFML at the year end was £68,000 (2020 - £90,000). Costs relating to promotional activities during the year, inclusive of VAT, were £180,000 (2020 - £120,000) and the amount due to ASFML at the year end was £60,000 (2020 - £42,000).

## 6. Finance costs

	2021			2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loan interest	177	532	709	171	514	685
Non-utilisation fees	18	52	70	21	62	83
Amortisation of loan arrangement expenses	9	28	37	9	28	37
	<b>204</b>	<b>612</b>	<b>816</b>	<b>201</b>	<b>604</b>	<b>805</b>

## 7. Taxation

### (a) Analysis of charge for year

	2021			2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Tax charge	-	-	-	-	-	-

(b) **Provision for deferred taxation.** At 30 June 2021, the Company had unutilised management expenses and loan relationship losses of £69,571,000 (2020 - £64,228,000). A deferred tax asset has not been recognised on the unutilised management expenses and loan relationship losses as it is unlikely there will be suitable future taxable profits against which these tax losses could be deducted. The rate of which a potential deferred tax asset would have been assessed at will change from 19% to 25% with effect from 1 April 2023.

(c) **Factors affecting the tax charge for the year.** The UK corporation tax rate is 19% (2020 – same). The tax charge for the year is lower (2020 – higher) than the standard rate of corporation tax in the UK of 19% (2020 – 19%). The differences are explained in the following table.

	2021			2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return before taxation	6,392	209,844	216,236	6,747	(10,113)	(3,366)
Corporation tax at a rate of 19% (2020 -	1,215	39,870	41,085	1,282	(1,922)	(640)

19%)						
Effects of:						
Non-taxable UK dividend income	(1,259)	-	(1,259)	(1,323)	-	(1,323)
Non-taxable overseas dividend income	(200)	-	(200)	(89)	-	(89)
Management expenses and loan relationship losses not utilised	244	771	1,015	130	676	806
Non-taxable (gains)/losses on investments	-	(40,641)	(40,641)	-	1,246	1,246
<b>Total tax charge</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 8. Dividends

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Amounts recognised as distributions to equity holders in the period:		
2020 final dividend of 5.00p per share (2019 - 6.10p) paid on 30 October 2020	4,986	6,106
2021 interim dividend of 2.70p per share (2020 - 2.70p) paid on 9 April 2021	2,678	2,703
	<b>7,664</b>	<b>8,809</b>

The proposed 2021 final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements. Set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 1158-1159 of the Corporation Taxes Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £6,392,000 (2020 - £6,747,000).

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Interim dividend 2021 of 2.70p per share (2020 - 2.70p) paid on 9 April 2021	2,678	2,703
Proposed final dividend 2021 of 5.00p per share (2020 - 5.00p) payable on 29 October 2021	4,894	5,002
	<b>7,572</b>	<b>7,705</b>

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as the date of approval of this Report, 6 September 2021, which satisfies the requirement of Section 1159 of the Corporation Tax Act 2010.

## 9. Return per Ordinary share

	<b>2021</b>		<b>2020</b>	
	<b>p</b>	<b>£000</b>	<b>p</b>	<b>£000</b>
<b>Basic</b>				
Revenue return	6.43	6,392	6.74	6,747
Capital return	211.01	209,844	(10.10)	(10,113)
<b>Total return</b>	<b>217.44</b>	<b>216,236</b>	<b>(3.36)</b>	<b>(3,366)</b>

Weighted average number of Ordinary shares in issue	<b>99,447,493</b>	<b>100,172,276</b>
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**10. Investments held at fair value through profit or loss**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Opening book cost	372,312	369,229
Opening investment holdings gains	154,728	181,680
<b>Opening fair value</b>	<b>527,040</b>	<b>550,909</b>
Additions at cost	188,543	84,089
Disposals - proceeds	(159,485)	(101,402)
Gains/(losses) on investments	213,905	(6,556)
<b>Closing fair value</b>	<b>770,003</b>	<b>527,040</b>
	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Closing book cost	444,749	372,312
Closing investment holding gains	325,254	154,728
<b>Closing fair value</b>	<b>770,003</b>	<b>527,040</b>

All investments are in equity shares listed on the London Stock Exchange.

The Company received £159,485,000 (2020 - £101,402,000) from investments sold in the period. The book cost of these investments when they were purchased was £116,107,000 (2020 - £81,006,000). 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.

**Transaction costs.** During the year, expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains/(losses) on investments in the Statement of Comprehensive Income. The total costs were as follows:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Purchases	600	297
Sales	98	68
	<b>698</b>	<b>365</b>

**11. Debtors**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Amounts due from brokers	631	262
Dividends receivable	1,587	593
Other debtors	20	24
	<b>2,238</b>	<b>879</b>

**12. Creditors: amounts falling due within one year**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Amounts payable to brokers	120	92
Bank loan	40,000	-
Interest payable	121	98
Investment management fee payable	1,264	983
Sundry creditors	270	270
	<u>41,775</u>	<u>1,443</u>

### Bank loan

On 1 November 2017 the Company entered into a £45 million unsecured loan facility agreement arranged with The Royal Bank of Scotland International Limited, which was increased to £65 million effective 10 May 2021. The facilities consist of a five year fixed-rate term loan facility of £25,000,000 (the "Term Loan") and a five year revolving credit facility of £40,000,000 (the "RCF"). The Term Loan has a maturity date of 31 October 2022.

The Company had drawn down £25 million of the Term Loan at the year end, at an interest rate of 2.349% (2020: same) and £40 million of the RCF, at an interest rate of 1.201% (2020: nil), with a maturity date of 12 July 2021. Subsequent to the year end, the loan was rolled over and £40 million was drawn down at the date of this Report at an approximate SONIA interest rate of 1.20% until 13 September 2021.

The terms of the unsecured loan facility agreement ("the agreement") contain covenants that the Consolidated Net Tangible Assets as defined in the agreement must not be less than £200 million, the percentage of borrowings against the Adjusted Portfolio Value as defined in the agreement shall not exceed 30%, and the portfolio contains a minimum of thirty eligible investments (investments made in accordance with the Company's investment policy). The Company complied with all covenants throughout the year.

### 13. Creditors: amounts falling due after more than one year

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Bank loan	25,000	25,000
Unamortised loan arrangement expenses	(49)	(86)
	<u>24,951</u>	<u>24,914</u>

The fair value of the term loan as at 30 June 2021 was £25,742,000 (2020 - £26,390,000), the value being calculated per the disclosure in note 20.

### 14. Called-up share capital

	<b>2021</b>		<b>2020</b>	
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
<b>Authorised</b>	<b>150,000,000</b>	<b>37,500</b>	<b>150,000,000</b>	<b>37,500</b>
<b>Issued and fully paid:</b>				
Ordinary shares of 25p each	98,682,566	24,671	100,065,198	25,016
Held in treasury:	5,481,856	1,370	4,099,224	1,025
	<u>104,164,422</u>	<u>26,041</u>	<u>104,164,422</u>	<u>26,041</u>
		<b>Ordinary shares Number</b>	<b>Treasury shares Number</b>	<b>Total Number</b>
Opening balance		100,065,198	4,099,224	104,164,422

Share buybacks	(1,382,632)	1,382,632	-
<b>Closing balance</b>	<b>98,682,566</b>	<b>5,481,856</b>	<b>104,164,422</b>

During the year the Company repurchased 1,382,632 (2020 - 520,213) Ordinary shares to treasury at a cost of £8,402,000 (2020 - £2,443,000). Subsequent to the year end, a further 809,108 Ordinary shares were repurchased to treasury at a cost of £5,961,000.

## 15 Capital reserve

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Opening balance	294,551	304,664
Unrealised gains/(losses) on investment holdings	170,527	(26,952)
Gains on realisation of investments at fair value	43,378	20,396
Management fee charged to capital	(3,449)	(2,953)
Finance costs charged to capital	(612)	(604)
<b>Closing balance</b>	<b>504,395</b>	<b>294,551</b>

The capital reserve includes investment holding gains amounting to £325,254,000 (2020 - gains of £154,728,000) as disclosed in note 10.

16. **Net asset value per share.** Total shareholders' funds have been calculated in accordance with the provisions of applicable accounting standards. The analysis of total shareholders' funds on the face of the Statement of Financial Position reflects the rights, under the Articles of Association, of the Ordinary shareholders on a return of assets.

	<b>2021</b>	<b>2020</b>
<b>Net assets attributable (£'000)</b>	<b>728,246</b>	<b>528,076</b>
<b>Number of Ordinary shares in issue at year end</b> <sup>A</sup>	<b>98,682,566</b>	<b>100,065,198</b>
<b>Net asset value per share</b>	<b>737.97p</b>	<b>527.73p</b>

<sup>A</sup> Excluding shares held in treasury.

17. **Financial instruments.** The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions for the purpose of managing currency and market risks arising from the Company's activities. No such transactions took place during the year

The main risks the Company faces from its financial instruments are i) market price risk (comprising interest rate risk, currency risk and other price risk), ii) liquidity risk and iii) credit risk. There was no material currency risk to the Company for the period.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year.

- i) **Market price risk.** The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements - interest rate risk, currency risk and other price risk.

*Interest rate risk*

Interest rate movements may affect:

- the level of income receivable on cash deposits and money market funds;
- interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions. It is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed funds are invested in equities, the effect is to magnify the impact on Shareholders' funds of changes - both positive and negative - in the value of the portfolio.

As at 30 June 2021, the Company had drawn down £65 million (2020 - £25 million) of the £65 million (2020 - £45 million) unsecured loan facility agreement arranged with The Royal Bank of Scotland International Limited. The facilities consist of a five year fixed-rate term loan facility of £25 million and a five year revolving credit facility of £40 million.

**Interest risk profile.** The interest rate risk profile of the portfolio of financial assets and liabilities at the year end date was as follows:

	<b>Weighted average period for which rate is fixed Years</b>	<b>Weighted average interest rate %</b>	<b>Fixed rate £'000</b>	<b>Floating rate £'000</b>
<b>As at 30 June 2021</b>				
<i>Assets</i>				
Investments in AAA-rated money market funds	-	0.08	-	22,636
Cash deposits	-	-	-	95
	-----	-----	-----	-----
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,731</b>
	-----	-----	-----	-----
<i>Liabilities</i>				
Bank loan	1.33	2.35	25,000	-
Bank loan	0.08	1.20	40,000	-
	-----	-----	-----	-----
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>65,000</b>	<b>-</b>
	-----	-----	-----	-----

	<b>Weighted average period for which rate is fixed Years</b>	<b>Weighted average interest rate %</b>	<b>Fixed rate £'000</b>	<b>Floating rate £'000</b>
<b>As at 30 June 2020</b>				
<i>Assets</i>				
Investments in AAA-rated money market funds	-	0.34	-	26,465
Cash deposits	-	-	-	49
	-----	-----	-----	-----
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,514</b>
	-----	-----	-----	-----
<i>Liabilities</i>				
Bank loan	2.33	2.35	25,000	-
	-----	-----	-----	-----
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>-</b>
	-----	-----	-----	-----

The weighted average interest rate is based on the current yield of each asset, weighted

by its market value.

The floating rate assets consist of investments in AAA-rated money market funds and cash deposits on call earning interest at prevailing market rates.

All financial liabilities are measured at amortised cost.

**Interest rate sensitivity.** The sensitivity analyses below have been determined based on the exposure to interest rates at the year end date and with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's profit for the year ended 30 June 2021 and net assets would increase/decrease by £227,000 (2020 - increase/decrease by £265,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and money market funds.

**Other price risk.** Other price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are mainly listed on the London Stock Exchange.

**Other price risk sensitivity.** If market prices at the year end date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary Shareholders for the year ended 30 June 2021 would have increased/decreased by £77,000,000 (2020 - increase/decrease of £52,704,000). This is based on the Company's equity portfolio held at each year end.

ii) **Liquidity risk.** This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities and AAA-rated money market funds, which can be sold to meet funding commitments if necessary. The maturity of the Company's existing borrowings is set out in the credit risk profile section of this note.

	Expected cash flows	Due within 3 months	Due between 3 months and 1 year	Due after 1 year
As at 30 June 2021	£'000	£'000	£'000	£'000
Bank loan	65,825	40,190	439	25,196

	Expected cash flows	Due within 3 months	Due between 3 months and 1 year	Due after 1 year
As at 30 June 2020	£'000	£'000	£'000	£'000
Bank loan	26,370	148	439	25,783

iii) **Credit risk.** This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

*The risk is not significant, and is managed as follows:*

- investment transactions are carried out with a number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, both

stock and cash reconciliations to the Custodians' records are performed on a daily basis to ensure discrepancies are investigated on a timely basis.

- cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

**Credit risk exposure.** In summary, compared to the amounts in the Statement of Financial Position, the maximum exposure to credit risk at 30 June was as follows:

	2021		2020	
	Statement of Financial Position £'000	Maximum exposure £'000	Statement of Financial Position £'000	Maximum exposure £'000
<b>Current assets</b>				
Debtors	631	631	262	262
Investments in AAA-rated money markets funds	22,636	22,636	26,465	26,465
Cash and short term deposits	95	95	49	49
	<b>23,362</b>	<b>23,362</b>	<b>26,776</b>	<b>26,776</b>

None of the Company's financial assets is past due or impaired.

#### 18. Analysis of changes in net debt

	At 30 June 2020 £'000	Cash flows £'000	Non-cash movements £'000	At 30 June 2021 £'000
Cash and cash equivalents	49	46	-	95
Investments in AAA-rated money market funds	26,465	(3,829)	-	22,636
Debt due in less than one year	-	(40,000)	-	(40,000)
Debt due after more than one year	(24,914)	-	(37)	(24,951)
	<b>1,600</b>	<b>(43,783)</b>	<b>(37)</b>	<b>(42,220)</b>

	At 30 June 2019 £'000	Cash flows £'000	Non-cash movements £'000	At 30 June 2020 £'000
Cash and cash equivalents	668	(619)	-	49
Investments in AAA-rated money market funds	15,911	10,554	-	26,465
Debt due after more than one year	(24,877)	-	(37)	(24,914)
	<b>(8,298)</b>	<b>9,935</b>	<b>(37)</b>	<b>1,600</b>

A statement reconciling the movement in net funds to the net cash flow has not been presented as there are no differences from the above analysis.

**19. Capital management.** The investment objective of the Company is to achieve long term capital growth by investment in UK quoted smaller companies.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance.

The Company's capital comprises the following:

	2021 £'000	2020 £'000
<b>Equity</b>		
Equity share capital	26,041	26,041
Reserves	702,205	502,035
<b>Liabilities</b>		
Bank loan	64,951	24,914
	<b>793,197</b>	<b>552,990</b>

The Company's net gearing comprises the following:

	2021 £'000	2020 £'000
Bank loans	(64,951)	(24,914)
Cash and investments in AAA-rated money market funds	22,731	26,514
Amounts due from brokers	631	262
Amounts payable to brokers	(120)	(92)
<b>Net (debt)/funds</b>	<b>(41,709)</b>	<b>1,770</b>
<b>Net assets</b>	<b>728,246</b>	<b>528,076</b>
<b>Net gearing/(cash) (%)</b>	<b>5.7</b>	<b>(0.3)</b>

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing which takes account of the Investment Manager's views on the market;
- the level of equity shares;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company does not have any externally imposed capital requirements.

**20. Fair value hierarchy.** FRS 102 requires an entity to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following classifications:

Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (2020 - same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (2021 - £770,003,000; 2020 - £527,040,000) have therefore been deemed as Level 1.

The investment in AAA rated money market funds of £22,636,000 (2020 - £26,465,000) is considered to be Level 2 under the fair value hierarchy of FRS 102 due to not trading in an active market.

The fair value of the £25 million Term Loan as at the 30 June 2021 has been estimated at £25,742,000 (2020 - £26,390,000) with a par value per Statement of Financial Position of £24,951,000 (2020 - £24,914,000) using the interest rate swap valuation technique. The £40 million revolving credit facility loan has a fair value of £40,000,000 due to it being short-term in nature. Under the fair value hierarchy in accordance with FRS 102, these borrowings can be classified at Level 2.

**21. Transactions with the Manager.** The Company has an agreement with Aberdeen Standard Fund Managers Limited for the provision of management services. The management fee is calculated on a calendar quarterly basis at and is payable in arrears at 0.85% per annum on the first £250 million of net assets, 0.65% on net assets between £250 million and £550 million and 0.55% on net assets above £550 million. The contract is terminable by either party on six months notice. The Manager also receives a separate fee for the provision of secretarial services and promotional activities as disclosed in note 5.

**22. Related party transactions.** The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report.

Aberdeen Standard Fund Managers Limited received fees for its services as Manager and Company Secretary. Further details are provided in notes 4, 5 and 21.

## ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures ("APMs") are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS 102 and the AIC SORP.

The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Where the calculation of an APM is not detailed within the financial statements, an explanation of the methodology employed is provided below:

Discount. A discount is the percentage by which the market price is lower than the Net Asset Value ("NAV") per share.

	<b>30 June 2021</b>	<b>30 June 2020</b>
Share price	698.00p	482.00p
Net Asset Value per share	737.97p	527.73p
Discount	5.4%	8.7%

Net gearing/(cash). Net gearing/(cash) measures the total borrowings less cash and cash equivalents divided by shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes amounts due from and to brokers at the period end as well as cash and short-term deposits.

	<b>30 June 2021</b>	<b>30 June 2020</b>
	<b>£'000</b>	<b>£'000</b>
Total borrowings <sup>A</sup>	<b>(64,951)</b>	<b>(24,914)</b>
Cash and short term deposits	95	49
Investments in AAA-rated money market funds	22,636	26,465
Amounts due from brokers	631	262
Amounts payable to brokers	(120)	(92)
	<hr/>	<hr/>
Total cash and cash equivalents <sup>B</sup>	<b>23,242</b>	<b>26,684</b>
	<hr/>	<hr/>
Net gearing/(cash) (borrowings less cash & cash equivalents) <sup>A-B</sup>	<b>(41,709)</b>	<b>1,770</b>
	<hr/>	<hr/>
Shareholders' funds	<b>728,246</b>	<b>528,076</b>
	<hr/>	<hr/>
Net gearing/(cash) (borrowings less cash & cash equivalents) <sup>A-B</sup>	<b>5.7%</b>	<b>(0.3)%</b>
	<hr/>	<hr/>

Ongoing charges ratio. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC, which is defined as the total of investment management fees and recurring administrative expenses and expressed as a percentage of the average of daily net asset values throughout the year.

	<b>30 June 2021</b>	<b>30 June 2020</b>
	<b>£'000</b>	<b>£'000</b>
Investment management fee	4,598	3,938
Administrative expenses	828	811
Less: non-recurring charges <sup>A</sup>	(8)	(8)
	<hr/>	<hr/>
Ongoing charges	<b>5,418</b>	<b>4,741</b>

Average daily net assets	<u>624,000</u>	<u>539,070</u>
Ongoing charges ratio (excluding look-through costs)	<u>0.87%</u>	<u>0.88%</u>
Look-through costs <sup>B</sup>	<u>0.01%</u>	<u>0.03%</u>
Ongoing charges ratio (including look-through costs)	<u>0.88%</u>	<u>0.91%</u>

<sup>A</sup> Comprises professional fees not expected to recur.

<sup>B</sup> Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis. The figure for 30 June 2020 has been restated in accordance with this guidance.

The ongoing charges ratio differs from the other ongoing costs figure reported in the Company's Key Information Document calculated in line with the PRIIPs regulations, which includes the ongoing charges ratio and the financing and transaction costs.

Total return. NAV and share price total returns show how the NAV and share price have performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. NAV total return assumes reinvesting the net dividend paid by the Company back into the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return assumes reinvesting the net dividend back into the share price of the Company on the date on which that dividend goes ex-dividend.

#### NAV total return

Year ended 30 June 2021	2021	2020
Opening NAV (p)	527.73p	539.54p
Closing NAV (p)	737.97p	527.73p
Increase/(decrease) in NAV (p)	210.24	-11.81
% Increase/(decrease) in NAV	39.8%	-2.2%
Uplift from reinvestment of dividends <sup>A</sup>	2.1%	1.7%
NAV total return increase/(decrease)	41.9%	-0.5%

<sup>A</sup> The uplift from reinvestment of dividends assumes that the dividends of 5.0p in October 2020 and 2.7p in April 2021 (6.1p and 2.7p in 2019/20) paid by the Company were reinvested in the NAV of the Company on the ex-dividend date.

#### Share price total return

Year ended 30 June 2021	2021	2020
Opening share price (p)	482.00p	491.50p
Closing share price (p)	698.00p	482.00p
Increase/(decrease) in share price (p)	216.00	-9.50
% Increase/(decrease) in share price	44.8%	-1.9%
Uplift from reinvestment of dividends <sup>A</sup>	2.1%	1.8%
Share price total return increase/(decrease)	46.9%	-0.1%

<sup>A</sup> The uplift from reinvestment of dividends assumes that the dividends of 5.0p in October 2020 and 2.7p in April 2021 (6.1p and 2.7p in 2019/20) paid by the Company were reinvested in the shares of the Company on the ex-dividend date.

## **Additional Notes to the Annual Financial Report**

The Annual General Meeting will be held at 12 noon on 21 October 2021 at 6 St Andrew Square, Edinburgh, EH2 2AH.

If approved at the Annual General Meeting, the final dividend of 5.00p per share will be paid on 29 October 2021 to holders of Ordinary shares on the register at the close of business on 8 October 2021. The relevant ex-dividend date is 7 October 2021.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 30 June 2021 have been agreed with the auditor and are an abridged version of the Company's full accounts, which have been approved and audited with an unqualified report. The 2020 and 2021 statutory accounts received unqualified reports from the Company's auditor and did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the reports, and did not contain a statement under s.498(2) or 498(3) of the Companies Act 2006. The financial information for 2020 is derived from the statutory accounts for 2020 which have been delivered to the Registrar of Companies. The 2021 accounts will be filed with the Registrar of Companies in due course.

The Annual Report and Accounts will be posted to shareholders in September 2021. Copies will be available during normal business hours from the Secretary, Aberdeen Asset Management PLC, 1 George Street, Edinburgh EH2 2LL or from the Company's website, [www.standardlifeuksmallercompaniestrust.co.uk](http://www.standardlifeuksmallercompaniestrust.co.uk) \*.

*Please note that past performance is not necessarily a guide to the future and that the value of investments and the income from them may fall as well as rise and may be affected by exchange rate movements. Investors may not get back the amount they originally invested.*

By order of the Board  
**Aberdeen Asset Management PLC**  
**Company Secretary**  
6 September 2021

*\* Neither the Company's website nor the content of any website accessible from hyperlinks on it (or any other website) is (or is deemed to be) incorporated into, or forms (or is deemed to form) part of this announcement.*