ABERDEEN SMALLER COMPANIES INCOME TRUST PLC

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

STRATEGIC REPORT

1. FINANCIAL HIGHLIGHTS

Net asset value total return{A}	Composite Index{B}	Share price total return{A}
2020: **-4.1%**	2020: **-4.3%**	2020: **-5.1%**
2019: +34.4%	2019: +17.7%	2019: +57.7%
Earnings per Ordinary share (revenue)	**Dividend per share**	**Discount to net asset value{A}**
2020: **5.60p**	2020: **8.24p**	2020: **10.3%**
2019: 9.98p	2019: 8.25p	2019: 8.3%

{A} Considered to be an Alternative Performance Measure. Further details can be found below.

{B} 2020 - Numis Smaller Companies ex Inv Trust Index; 2019 - FTSE Small Cap ex Inv Trust Index.

2. CHAIRMAN'S STATEMENT

Performance

In what has been an extremely challenging year, your Company has delivered solid performance against its benchmark, the Numis Smaller Companies ex Investment Trusts index, with the Company's NAV returning -4.1% versus a benchmark return of -4.3%. Share price performance was slightly behind the benchmark with a return of -5.1% over the year.

The Company's 3 and 5 year NAV performance against the benchmark remains strong, returning +10.1% and +58.3% respectively, versus composite benchmark returns of -2.9% and +26.3%.

This is the first full year in which the Company's performance has been measured against its new benchmark, which came into effect on 1 January 2020, changing from the FTSE Small Cap (excl. investment trusts) index to the Numis Smaller Companies (excl investment trusts) index. Performance over 3 and 5 year periods is measured against a composite of both indices.

Dividend

The Company's revenue return over the period has decreased for the year ending 31 December 2020 to 5.60p (2019: 9.98p). This reflects the impact of widespread dividend cuts and cancellations seen across the equity market: more details on this can be found in the Manager's report.

However, as the Board considers the generation of income for our Shareholders to be a key purpose of the Company, and with the use of its revenue reserves, which have been built up in recent years, the Company has kept the dividend at similar levels to 2019 with the total dividend for the year being 8.24p (2019: 8.25p). With the year-end share price at 313p, this gives a dividend yield of 2.6%. Over 3 and 5 years, the dividend has increased by 16.9% and 23.9% respectively compared to rises in CPI of 4.6% and 9.8%.

The revenue reserve account, which will represent 11.2p per share following payment of the fourth interim dividend, continues to provide the Company with some flexibility in future years, should we encounter further challenges to income.

Ongoing Charges

The Company's ongoing charges continue to be an area of focus for the Board. The Company's ongoing charges figure was 1.35% to the end of December 2020, compared to 1.40% to the end of December 2019.

Discount

The Company's discount before the start of the pandemic had narrowed quite significantly, and we did see the Company's share price move to a small premium momentarily. Market volatility, however, increased substantially during the course of March 2020 which saw a widening of the discount to 28%. The discount has made a considerable recovery, in what has been a very unsettled year, and finished the year at 10.3% (2019: 8.3%).

Investee Company Stewardship
The Manager has continued to engage with the Company's investee companies on a virtual basis during the year, and the Board is pleased to report that the Manager has seen enhanced levels of engagement despite this new way of working. The Manager's report below provides some examples and further details.

Gearing/Debt
The Company continues to utilise part of its £10 million credit facility, £5 million of which is fixed rate and £5 million is floating rate. At the year end £7 million of the facility was being utilised. The facility has staggered maturity terms for its fixed and floating rate elements, with the floating rate facility being drawn to 2021 and the fixed rate facility to 2023.

As the Company's floating rate facility expires in April this year, the Company will be seeking terms for its renewal during the course of the first quarter of 2021.

The Company's net gearing position as at 31 December 2020 was 7.0%, compared to 7.5% at the end of 2019.

Board Composition
The Board continually reviews its composition and considers its succession and refreshment policies. The succession plan has taken longer than anticipated due to the restrictions put in place as a result of the Covid-19 pandemic. The Board is currently undergoing a search for two new Board appointments during the course of 2021 in anticipation of the retirement of Barry Rose later in 2021 and myself at the AGM in 2022. Barry Rose has kindly agreed to remain on the Board until the recruitment process is complete.

Environmental, Social and Corporate Governance ("ESG")
The Board monitors the Manager's activities to ensure that appropriate and robust ESG principles are being followed. As part of its investment management process, the Manager embeds ESG considerations into its research and analysis of investee companies. Further details of the Manager's ESG engagement can be found on pages 17 to 19 of the published 2020 Annual Report.

ESG continues to be an important area of focus and we were pleased to see a dedicated ESG analyst join ASI's Smaller Companies Team last year.

Manager
In November 2020, the Board announced that Amanda Yeaman would be joining Abby Glennie as co-Manager of the Company's portfolio. Amanda has been supporting Abby in the management of the Company for some time and we were delighted to welcome her as co-Manager more formally. Together, they continue to manage the portfolio in alignment with their Quality Growth Momentum process with an income bias. Amanda's biography can be found on page 85 of the of the published 2020 Annual Report.

Annual General Meeting
The Company's Annual General Meeting has been scheduled for Wednesday 28 April at 9.00 am to be held at the offices of Aberdeen Standard Investments, 1 Bread Street, London. As you will be aware, attendance at last year's AGM was restricted to the minimum requirements in order to adhere to Government guidelines in place at that time.

As at the date of this report, restrictions on gatherings and social distancing measures are in place and, given the ongoing uncertainty and visibility on the level of Government guidelines at the end of April, the Board has reluctantly decided to proceed with this year's AGM by limiting attendance again to the minimum quorum requirements. In the unlikely event of the situation changing, the Company will update shareholders through an announcement to the London Stock Exchange and on the Company's website and we therefore encourage shareholders to check for such updates.

The Board strongly advises that no shareholders should attend the AGM in person and instead exercise their votes in respect of the meeting in advance, by completing and returning their proxy forms. This will ensure that their votes are registered. Shareholders are also invited to address any questions to the company secretary via email to aberdeen.smaller@aberdeenstandard.com.

The Board is aware that many shareholders welcome the views of the Manager and perhaps particularly this year, given the uncertainties that lie ahead for the UK economy and markets. Accordingly a presentation from the Manager, which would have normally have been delivered at the AGM, will be made available for shareholders on the Company's website.

Amendment to the Articles of Association
Shareholders will note that one of the resolutions being proposed at this AGM is an amendment to the Company's Articles of Association to allow for virtual/hybrid meetings to be held and conducted in a manner that allows those not present to attend, speak and vote at meetings by electronic methods.

While the Board does not intend to hold meetings in this way going forward, it will allow the Company to utilise this option, where a physical meeting would not be in the best interests of shareholder safety. It is important to note that this new provision does not prevent the Company from holding physical meetings, which is its preferred option.

Outlook
Markets continue to be uncertain. Your Manager has steered the Company through these turbulent times well and will continue to follow its investment process, which has proved resilient through various economic cycles. Despite political and economic uncertainty, the investment process and focus on stock selection continues to guide the Manager towards a portfolio of quality growth businesses, which can prove resilient in a variety of environments.

Robert Lister,
Chairman
10 March 2021

3. OVERVIEW OF STRATEGY

Business Model
The business of the Company is that of an investment company which conducts its affairs in order to qualify as an investment trust for UK capital gains tax purposes.

The Company aims to attract long term private and institutional investors looking to benefit from the income and capital growth prospects of UK smaller companies. The Directors do not envisage any change in this activity in the foreseeable future.

Investment Objective and Purpose
The objective and purpose of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Investment Policy
The Company invests in equities, corporate bonds and preference shares. The primary aim of the Company is to invest in the equity shares of smaller companies listed on a regulated UK stock market in order to gain growth in dividends and capital. The Company employs gearing with the primary intention of enhancing income and to a lesser extent, long-term total returns. The majority of the additional funds raised by gearing is invested in investment grade corporate bonds and preference shares.

Gearing
The level of gearing varies with opportunities in the market and the Board adopts a prudent approach to the use of gearing. The total level of gearing will not exceed 25% of the Company's net assets, at the time it is instigated, and within that gearing limit, the equity portfolio gearing will not exceed 10%, at the time it is instigated.

Risk diversification
The investment risk within the portfolio is managed through a diversified portfolio of equities, corporate bonds and preference shares. The Company does not invest in securities that are unquoted at the time of investment. A maximum of 5% of the Company's total assets can be invested in the securities of one company at the time of purchase. Although the Company is not permitted to invest more than 15% of its total assets in other listed investment companies (including investment trusts), the Board currently does not intend to invest in other listed investment companies.

Benchmark index
Numis Smaller Companies excluding Investment Trusts (total return) –effective from 1 January 2020; FTSE Small Cap Index (excluding Investment Trusts) (total return) – up to 31 December 2019.

Management

The Board has appointed Aberdeen Standard Fund Managers Limited ("ASFML" or "the Manager") to act as the alternative investment fund manager ("AIFM"). The Company's portfolio is managed on a day-to-day basis by Aberdeen Asset Managers Limited ("AAML" or "the Investment Manager") by way of a delegation agreement in place between ASFML and AAML. AAML and ASFML are both wholly owned subsidiaries of Standard Life Aberdeen plc.

Delivering the Investment Policy

Equity Investment Process

The equity investment process is active and bottom-up, based on a disciplined evaluation of companies through company meetings with the Investment Manager. Stock selection is the major source of added value, concentrating on quality, growth and momentum characteristics.

Great emphasis is placed on understanding a company's business and understanding how it should be valued. New investments are not made without the Investment Manager having first met management of the investee company and undertaken further analysis to outline the underlying investment merits. Top-down investment factors are secondary in the equity portfolio construction, with diversification and formal controls guiding stock and sector weights.

Fixed Income Investment Process

The fixed income investment process is an active investment style which identifies value between individual securities. This is achieved by combining bottom-up security selection with a top-down investment approach. Investments in corporate bonds and preference shares are also managed by investment guidelines drawn up by the Board in conjunction with the Investment Manager which include:

- No holding in a single fixed interest security to exceed 5% of the total bond issue of the investee company; and
- Maximum acquisition cost of an investment grade bond is £1 million and of a non-investment grade bond is £500,000.

Key Performance Indicators ("KPIs")

The Board uses a number of financial performance measures to assess the Company's success in achieving its objective and determining the progress of the Company in pursuing its investment policy. The main KPIs identified by the Board in relation to the Company which are considered at each Board meeting are as follows:

KPI	Description
Performance of net asset value against the benchmark index	The Board considers the Company's net asset value total return figures to be the best indicator of performance over time and is therefore the main indicator of performance used by the Board. The Board measures performance against the benchmark index. The returns over 1, 3 and 5 years are provided below and a graph showing performance against the benchmark index is shown on page 28 of the published 2020 Annual Report.
Revenue return and dividend growth	The Board monitors the Company's net revenue return and dividend growth through the receipt of detailed income forecasts and considers the level of income at each meeting. The Company aims to grow the dividend at a level above CPI when taken over a number of years. A graph showing the dividends and yields over 5 years is provided on page 29 of the published 2020 Annual Report.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. A graph showing the share price total return performance against the benchmark index is shown on page 28 of the published 2020 Annual Report.
Discount/premium to net asset value	The discount/premium relative to the net asset value per share represented by the share price is monitored by the Board. A graph showing the share price discount/premium relative to the net asset value is shown on page 28 of the published 2020 Annual Report.
Ongoing charges ratio (OCR)	The Company's ongoing charges ratio (OCR) is provided below. The Board reviews the OCR, taking account of its total assets.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its business model, financial position, future performance, solvency or liquidity and prospects. The Board has in place a robust process to identify, assess and monitor the principal risks and uncertainties facing the Company and to identify and evaluate newly emerging risks. A summary of the principal risks together with their mitigating action is set out below.

The Board has adopted a risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers. This risk matrix is reviewed formally every six months but risks, including emerging risks, are, if appropriate, discussed by the Board at, or between, formal Board quarterly meetings.

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

Description	Mitigating Action
Investment and Market risk The Company is exposed to fluctuations in share prices and a fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds. The Company invests in smaller companies which may be subject to greater volatility than similar larger companies.	The Board has appointed ASFML to manage the portfolio within the remit of the investment policy. The Board monitors the results and implementation of the Manager's investment process and reviews the investment portfolio, including diversification and performance, at each meeting.

Investment portfolio management

Investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.

The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and monitors compliance with the guidelines through regular reports from the Manager, including performance reporting.

Major market event or geo-political risk

The Company is exposed to stockmarket volatility or illiquidity as a result of a major market shock due to a national or global crisis. The impact of such risks, associated with the portfolio or the Company itself, could result in disruption on the operations of the Company and losses.

External risks over which the Company has no control are always a risk. The Company does what it can to address these risks where possible, not least operationally and to try and meet the Company's investment objectives.

The Board is cognisant of the risks arising from the outbreak and spread of the Coronavirus around the world, including stockmarket instability and longer term economic effects, and the impact on the operations of the third-party suppliers, including the Manager.The Manager has undertaken an assessment of the Company's portfolio and is in close communication with the underlying investee companies in order to navigate and guide the Company through the current challenges. The Manager assesses and reviews the investment risks arising from Covid-19 on companies in the portfolio, including but not limited to: employee absence, reduced demand, supply chain breakdown, balance sheet strength, ability to pay dividends, and takes the necessary investment decisions.

The Manager has extensive business continuity procedures and contingency arrangements to ensure they are able to service their clients, including investment trusts. The services from third parties, including the Manager, have continued to be supplied effectively and the Board will continue to monitor arrangements through regular updates from the Manager.

Gearing risk

Gearing has the effect of accentuating market falls and market gains. The inability of the Company to meet its financial obligations, or an increase in the level of gearing, could result in the Company becoming over-geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.

The Board monitors the Company's actual gearing levels (including equity gearing) in relation to its assets and liabilities and reviews the Company's compliance with the principal loan covenants.

The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million three year variable rate loan. The facility commenced in April 2018 and at 31 December 2020, £7 million was drawn down (£5 million fixed rate and £2 million variable rate).

Income and dividend risk

The ability of the Company to pay dividends and any future dividend growth will depend over the longer term on the level of income generated from its investments and the timing of receipt of such income by the Company. In the shorter term the size of the Company's revenue reserves will determine the extent that shareholder dividend payments can be less volatile than the dividends actually paid by the companies in which the Company invests. Accordingly there is no guarantee that the Company's dividend objective will continue to be met.

The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting and the Manager has developed detailed and sophisticated models for forecasting and monitoring dividend payments.

Operational risk

The Company is dependent on third parties for the provision of services and systems, in particular those of the Manager and the Depositary. Failure by a third party provider to carry out its contractual obligations could result in loss or damage to the Company. Disruption, including that caused by information technology breakdown or other cyber-related issue, could prevent the functioning of the Company.

Written agreements are in place defining the roles and responsibilities of third party providers and their performance is reviewed on an annual basis. The Board reviews regular reports from the Manager on its internal controls and risk management systems, including internal audit and compliance monitoring functions. The Manager reports to the Board on the control environment and quality of service provided by third parties, including business continuity plans and policies to address cyber crime. Further details of internal controls are set out in the Audit Committee's Report.

Promoting the Success of the Company

The Board is required to report on how it has discharged its duties and responsibilities under section 172 of the Companies Act 2006 (the "s172 Statement"). Under section 172, the Directors have a duty to promote 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 the Company's stakeholders and the impact of the Company's operations on the environment.

The Company consists of four Directors and has no employees or customers in the traditional sense. Without a variety of external stakeholders, the Company can neither exist nor flourish. Our shareholders own us and the Company's Manager, ASFML, provides investment management services. A number of other stakeholders support us by providing regulatory and other services, including secretarial, administration, depositary, custodial, banking and audit services. For example, BNP Paribas is our Depository and EY is our auditor.

Our relationship with each is different. We meet the Manager on a quarterly basis but might meet our investors, both institutional and retail, only once a year. We often need to balance the interests of different stakeholders, for example, in agreeing their fees.

The Board's principal concern has been, and continues to be, the interests of the Company's shareholders and potential investors. The Manager undertakes an annual programme of meetings with the largest shareholders and reports back to the Board on issues raised at these meetings. In normal circumstances, the Board encourage all shareholders to attend and participate in the Company's AGM and can contact the Directors via the Company Secretary. Shareholders and investors can obtain up-to-date information on the Company through its website and the Manager's information services and have direct access to the Company through the Manager's customer services team or the Company Secretary. As the normal format of the 2020 AGM was not able to take place due to the Covid-19 restrictions in place, a number of presentations and podcasts by the Manager were made available on the Company's website for shareholders to access.

The Board believes that one of the key strategies of the Company, for its long-term stability and sustainability, is to develop share ownership among the growing retail and self-directed investors. Approximately 49% of the shares are currently held by such investors. In order to raise and maintain awareness of the Company, the Board participates in the promotional programme run by the Manager on behalf of a number of investment trusts under its management. The purpose of the programme is both to communicate effectively with existing shareholders and to reach more new shareholders, thus improving liquidity and enhancing the value and rating of the Company's shares. Regular reports are provided to the Board on promotional activities as well as analysis of the shareholder register.

As the Company has no employees, the culture of the Company is embodied in the Board of Directors. In seeking to deliver the Company's investment objective for shareholders, our values are trust and fairness while challenging constructively, and in a respectful way, our advisers and other stakeholders.

The Board undertakes a robust evaluation of the Manager, including investment performance and responsible ownership, to ensure that the Company's objective of providing sustainable income and capital growth for its investors is met. The portfolio activities undertaken by the Manager on behalf of the Company can be found in the Manager's Review and details of the Board's relationship with the Manager and other third party providers, including oversight, is provided in the Statement of Corporate Governance.

Key decisions and actions during the year to 31 December 2020, which required the Directors to have greater focus on stakeholders included:

Success of the Continuation Vote
The Board, Manager and broker engaged with the key shareholders on the continuation vote which was successfully passed at the AGM in June 2020, with 99.7% of votes in favour.

Dividends paid to shareholders
2020 was a period of great uncertainty, when many quoted companies either cut or cancelled their dividends which impacted the level of the Company's income and the net revenue available for distribution as dividends. The Board recognises the importance of dividends to shareholders. Over recent years, the Company had built up a significant level of revenue reserves and the Board agreed it would be more valuable for shareholders to utilise these reserves to support the Company's dividend policy this year and to alleviate the decline of dividend income elsewhere. Accordingly, after reviewing the Company's revenue forecasts and the general investment outlook with the Manager, the Board declared four quarterly dividends totally 8.24p, which was largely in line with the 2019 dividend level of 8.25p.

Management of the portfolio
As in previous years, the Board focused on the performance of the Manager in achieving the Company's investment objective within an appropriate risk framework. Following the emergence of the Covid-19 crisis in early 2020, there was increased interaction between the Board and the Manager to consider the impact on the Company (including portfolio activity, risks and opportunities, gearing and revenue forecasts) to ensure that the Company had sufficient resilience in its portfolio and operational structure to meet the challenged circumstances, which has proved to be the case.

Directorate
The Board's succession plan to recruit a new Director in 2020 was delayed, due to the logistical difficulty of meeting candiates in person and also the importance of maintaining Board stability during a most challenging period. Accordingly, and subject to shareholder support, the Board intends to continue with its succession plan and appoint two new Directors before the end of the 2021 financial year.

Third party service providers
Following a review by the Management Engagement committee, the Board was satisfied with the the performance of the Manager and its key service providers. Despite the many challenges arising from the Covid-19 pandemic, the Company continued to receive 'BAU' service with minimal disruption.

The Board is supportive of the Manager's philosophy that Environmental, Social and Governance (ESG) factors are fundamental components for responsible investing. ESG considerations are embedded in the investment process undertaken by the Manager and the Manager dedicates a significant amount of time and resource on focusing on the ESG characteristics of the companies in which they invest. Further details of how the Manager have sought to address ESG matters across the portfolio are disclosed in the Statement of Corporate Governance.

The Manager is also 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.

The Company is a long term investor and the Board has in place the necessary procedures and processes to continue to deliver the Company's investment proposition and to promote the long term success of the Company for the benefit of its shareholders and stakeholders.

Duration
The Company does not have a fixed life. However, the Company's articles of association require that an ordinary resolution is proposed at every fifth Annual General Meeting to allow the Company to continue as an

investment trust for a further five year period. The Compnay's continuation vote held in 2020 was supported by shareholders and the next continuation vote is scheduled for 2025.

Board Diversity
The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge represented on the Board in order to allow the Board to fulfill its obligations. Each Director brings different skills and experience to the Board. The Board also recognises the benefits, and is supportive, of the principle of diversity in its recruitment of new Board members. At 31 December 2020, the Board consisted of three males and one female.

Employee, 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 Aberdeen Standard Fund Managers Limited. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is outlined in the Statement of Corporate Governance.

Modern Slavery Act
Due to the nature of the Company's business, being a company that does not offer goods and services to customers, the Board considers that it 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.

Global Greenhouse Gas Emissions
The Company has no greenhouse gas emissions to report from the operations of its business, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company qualifies as a "low energy user" under the Streamlined Energy and Carbon Reporting Requirements (SECR), and that its energy and carbon information is not disclosed for that reason.

Viability Statement
The Company does not have a formal fixed period strategic plan but the Board formally considers risks and strategy at least annually. The Board considers the Company, with no fixed life, to be a long term investment vehicle, but for the purposes of this viability statement has decided that a period of three years is an appropriate period over which to report. 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 three years.

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

- The principal risks detailed in the Strategic Report above and the steps taken to mitigate these risks. In particular, the Board has considered the operational ability of the Company to continue in the current environment, which has been impacted by the global Covid-19 pandemic, and the ability of the key third-party suppliers to continue to provide essential services to the Company. Third party services have continued to be provided effectively;
- The investment objective in the current environment remains attractive. A resolution for the continuation of the Company was passed at the AGM in June 2020 showing ongoing support for the Company's mandate. The Company has continued to deliver sustained dividend growth as well as good capital growth over the longer term;
- The outlook for the Company and its portfolio detailed in the Chairman's Statement and the Investment Manager's Review;
- The Company is invested in readily realisable listed securities;
- The level of revenue surplus generated by the Company over a number of years and its ability to achieve its dividend objective;
- The level of gearing is closely monitored. Covenants are actively monitored and there is adequate headroom in place. The Company has the ability to renew its gearing or repay its borrowings through proceeds from sales of investments. Initial discussions with banks have commenced with a view to renewing the facility;
- The impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values.

When considering the risk of under-performance, the Board reviewed the impact of stress testing on the portfolio, including the effects of any substantial future falls in investment values. The Board also considered that matters such as significant economic or stock market volatility, a substantial reduction in the liquidity of the portfolio, or changes in investor sentiment could have an impact on its assessment of the Company's prospects and viability in the future and the period over which the performance of the Trust is monitored. The results of the stress tests have given the Board comfort over the viability of the Company.

Accordingly, taking into account all of these factors, the Company's current position and the potential impact of its principal risks and uncertainties, the Board has 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 three years from the date of this Report.

Robert Lister,
Chairman
10 March 2021

4. INVESTMENT MANAGER'S REVIEW

Overview

2020 saw a resilient period of performance from the Trust in this highly unusual year. We continued to use the Matrix, our in-house stock screening tool, as a core part of our investment process. The longer term factors in the Matrix, as well as the quality aspects, enhanced our ability to identify growth businesses which with their many levers for growth, strong product and service propositions, international angles and barriers to entry, exhibited the ability to grow even in tough market environments. In many cases the strong got stronger and gained market share. We did not panic out of names, or aggressively turnover the portfolio, but remained committed to our long term focus on quality growth businesses, confident that companies with strong balance sheets and management teams would ride out the uncertain periods.

This investment process of Quality Growth Momentum with an income support performed well over a volatile 2020, outperforming our benchmark.

Dividends have been the collateral damage in this crisis. Dividends from UK plcs fell by 44% to £61.9bn for 2020, the lowest annual total since 2011, and the first time since 2015 that distributions have not grown year-on-year according to Link Group dividend monitor. Dividends in our benchmark, the Numis Smaller Companies Index ex investment trusts, fell by 52%. Given this backdrop, we were particularly pleased to see the strength of dividend income across the portfolio that we did throughout the year.

Driven by Covid-19 and lockdowns, many companies withdrew guidance and most UK companies in all sectors regardless of current trading who normally paid dividends looked to conserve cash by cancelling or delaying pay outs. Dividend cuts were also frequently a prelude to issuing additional equity as part of a bigger refinancing exercise. In the aftermath of the financial crisis, just two fifths of companies cut or cancelled pay outs. This time the majority cancelled immediately and a smaller proportion reduced the pay-out. Not surprisingly discretionary special dividends had disappeared. This is obviously an issue for any income focused portfolio.

As we got more visibility towards the end of Q2, when companies began to re-instate guidance, it became clearer which companies were more resilient. We were fortunate that the quality dynamic of our investment process meant that we have exposure to a strong contingent of companies who continued to pay dividends throughout the pandemic or reinstate them upon board approval. Some names in the portfolio increased the dividend.

Link Group dividend monitor further cautions that it could take until 2026 for UK dividends to return to their 2019 level. We expect the Company to do better than this with a faster recovery to the previous year's income levels. In addition, given the strong revenue reserves of the Company, we are therefore pleased that in a tough environment for income, we have been able to pay a dividend to shareholders at broadly the same level as the previous year and feel well positioned to provide a supportive income stream for our shareholders.

2020 has been the catalyst for ESG trends to gain critical mass. ESG is embedded in our process, through our fundamental ESG research, our engagement with management teams, and our use of external ESG data. Strong ESG credentials are a core part of our Quality analysis, and our lower risk approach to investing in smaller companies. When making ESG considerations we are looking at both the risks and the opportunities those factors provide. We've been pleased with how our investee companies have striven to protect the morale and mental health of their workforce, with online support to keep people engaged, training and development resources, and helping their colleagues be ready and able to return to work. The sense of employee loyalty generated has been impressive, which bodes well for cultural strength and staff longevity. This is the behaviour of management teams incentivised for the long term.

Performance
In the half year to the end of June 2020 the Company's portfolio returned -15.1% versus the benchmark return of -25.0% which was a pleasing performance across two very different quarters. Through the period, and particularly in March where the harshest market impacts were felt, the Company held up very well on a relative basis. For the second half of the year we gave up some of the performance gained in the earlier period, as our style was out of favour given the value rally late in the year. The portfolio's return for the year was -2.4% compared to a benchmark return of -4.3%, an outperformance of +1.9%.

The Company's Net Asset Value (NAV) total return for the financial year was -4.1%. Long term performance also remains very favourable over 3 and 5 year time periods, with 3 year NAV growth of +10.1% versus the benchmark of -2.9%, and 5 year NAV growth of 58.3% versus the benchmark of +26.3%.

Having paid a broadly flat dividend for the year, we are pleased to report a dividend yield of 2.63%; higher than our benchmark which yielded 1.58%.

The UK market, and even more so at the small end, contains a wide and diverse range of companies. Through our bottom up stock selection focus we identify businesses which have Quality, Growth and Momentum characteristics, with an income balance. We do not look to take macroeconomic calls or time the cycle, but focus on identifying businesses which we believe have the levers and ability to grow in a sustainable manner, despite external distractions the economy might experience. In difficult market environments and times when economic growth slows, quality is a characteristic we believe comes into even more focus. Quality businesses, with healthy balance sheets, management teams with a strong pedigree, good corporate governance and strong competitive positions, have the ability to be resilient through more difficult periods, and even improve their positioning when peers may be struggling. We look to identify businesses which have many angles to their growth opportunities, giving them a greater ability to continue growth, whether it be through areas like complementary products and services, new geographies, or investment funded by the strength of their quality balance sheets.

Equity Portfolio
Stock selection was a significant contributor to the outperformance of the Trust over 2020. We made no significant style changes throughout the pandemic, nor did we turnover the portfolio. We continued to follow our process. It was pleasing to see that the contributors in Q1 remained so for the financial year reflecting our process to select quality names that can grow in all environments. We did not gain outperformance by owning names that were deemed simply to be lockdown winners, rather because we have exposure to high quality names in all sectors who could prove resilience and growth, and who we had held prior to Covid-19 for their fundamental attractions to our investment process. Many companies across the portfolio generated earnings for the year higher than initially expected by the market. These earnings upgrades were well rewarded with share price performance.

Games Workshop has been a consistent positive contributor to performance throughout the year, trading well despite Covid-19 disruption. The business has shown strong growth in recent years as the adoption of its table top gaming hobby has been enhanced through innovation and development, whilst social media has improved customer recruitment. The hobby is now fairly mature in the UK, but is in development stage in many other parts of the world where Games Workshop are experiencing strong growth.

The vertically integrated business is rich with IP and exclusive product. Management have made many operational improvements in recent years, sharpening price points and innovating with new high quality products. An increased marketing drive, together with better customer interactions through social media, has resonated with existing customers, attracted new ones and reactivated lapsed ones.

Following the government announcement of full lockdown restrictions, all stores, factories and workshops were closed. Trading short term was impacted, but management made the necessary changes in their warehouses to meet social distancing requirements and began to make trades sales across Europe and America. Online orders restarted in May, with stores following depending on local government guidelines. Although the business effectively stopped trading for a period the appetite for at home entertainment accelerated in lockdown and management were successful in driving their online presence and hobby engagement to drive the number of active users. Product marketing has become far slicker and more compulsive, both in terms of the product itself and the marketing. Management innovated with virtual vouchers to offer attractive discounts and to explore new areas of the product range, and flexed delivery options. Games Workshop issued a number of stronger than expected updates during the year, partly reflecting pent up demand but also from the strong product line up in the period and a greater proportion of sales through trade and online. Upon reopening operations around May, the business momentum returned to the strong pathway seen pre-Covid, and even strengthened. There was also news of a further licencing agreement, with Frontier Developments for a real time strategy game based on Warhammer Age of Sigmar. The shares again reacted well, as this further demonstrated the broadening of IP monetisation, with license revenue streams being very high margin. Supported by the strong trading performance, the Board has declared dividends similar in quantum from prior years, but the timing of payments was slightly different.

We are confident that the quality of the business and the top line growth opportunity will continue to support upgrades, with product innovation, international growth and license deals all improving. We expect the business to continue to deliver robust earnings growth in coming years which in turn will drive dividend growth.

XP Power (XPP) is a manufacturer and supplier of power converters to the Industrial, Semiconductor, Technology and Healthcare markets. Their core AC-DC product converts alternating current from the mains to direct current, this is required for virtually all electrical equipment. The market had worried XPP would see a sharp fall in revenue and profits given the supply chain disruptions and potential facility closures. There was some conciliation in April when XPP released a strong trading update demonstrating they were more resilient than the market feared, as demand for their products remained robust. Given the critical nature of some of their customer's products, they were able to continue to manufacture throughout the crisis, and did so operationally well despite some supply chain uncertainties. The healthcare division saw unprecedented demand and the recovery in semiconductor continued. Following others in the sector, XP cautioned on the outlook at this stage and withdrew the final dividend. We had more good news at the interims in August showing sales growth was sustained and order momentum strong, allowing them to end the period with a record order book. The dividend was reinstated at this stage reflecting management confidence. We saw another upgrade in October confirming that they were capitalising on a much larger opportunity as the strength of order wins continued. The cash performance continued to impress with net debt reducing. This balance sheet strength, along with the availability of liquidity, underpinned the proposed Q3 dividend. The strong trading performance illustrates the benefit of diversity of end markets and the mitigation of the cyclicality of individual end markets. It was also announced that long-standing CEO Duncan Penny will retire and will be succeeded by current CFO Gavin Griggs. We see the change as evolutionary, and do not foresee any major change to the strategy, which is serving the group well.

We saw a strong contribution from **Liontrust Asset Management**. This year they have delivered extremely strong flows, supported by fund performance over the long term. Liontrust is demonstrating that they are taking share from peers that lack the focus, brand, and investment performance they demonstrate. Fund investors do want active management and are willing to pay for it where they believe value is being added. Liontrust has an expanded range of funds which appeal to investors and is delivering the benefits of consistently applied investment processes with strong monthly flows. During the second half of the year we had an update from the company showing extremely resilient inflows despite the expected Covid-19 AUM hit from markets. The net inflows achieved in an extremely difficult quarter show the resilience of the business and the quality of the product offering, brand and distribution. The Sustainable Investments and Economic Advantage teams saw high levels of net inflows and investment performance remains top quartile for a majority of their funds over 1, 3 and 5 years. The shares reacted positively to the continued momentum in flows and the payment of the dividend, as well as the acquisition of Architas, a multi manager business which further diversifies Liontrust and expands their addressable market.

Hollywood Bowl detracted from performance in the period. This business had traded consistently well before the pandemic thanks to their strategy of constantly investing in the customer proposition. However, bowling was included in the category of 'close proximity' venues which lead to protracted periods of closure. The business remained profitable in FY20, managing costs down, preserving cash and bolstering its balance sheet with a capital raise, which we supported. Demand has proved resilient in the short periods in which they were allowed to open and the business adaptable, remaining profitable even under restrictive trading conditions. Importantly, its strategy remains intact with innovation, refurbishment and expansion expected to drive top line and margin growth. Through investment in PuttStars, a mini golf experience, they have also broadened their addressable market, and given the confidence gained during the short trading periods this year they are rolling out more sites. While the shares rallied towards the end of the year upon news of the vaccine, sentiment worsened upon the news of lockdown 2, in early November.

Cineworld was a detractor from performance given the weak news flow around cinema attendance numbers particularly in the US early in 2020. We'd already been reducing this position in 2019, and were concerned that lower revenue growth would slow the de-levering of the balance sheet and therefore exited the holding early in 2020 on quality and growth concerns.

James Fisher is a leading provider of specialised services to the marine, renewable energy, oil and gas and other high assurance industries. The group has compounded high levels of growth over long periods of time, but over their FY19 the business was impacted by some challenges in its largest division, Marine Support, and by Covid-19. Initially the market believed the business to be later cycle so less correlated with the oil price and so more resilient and early in the year management felt confident to pay a dividend. Then upon re-instating guidance the full impact of Covid-19 and the related fall in oil prices and oil industry profitability impacted both the non-carbon and carbon fuel parts of the business. Subsequently, because of concerns that the balance sheet might be stretched, the shares didn't recover with the oil price. The business is broad and rarely do all cylinders fire simultaneously, but its industry leading position in a number of structural growth markets is likely to keep the growth engine running for many years. We see upside potential to forecasts from a steeper recovery in the oil price and oil industry profitability than assumed, causing demand to normalise in the Marine Support division and continue its improvement in the Offshore Oil division. We also believe the new CEO will reinvigorate the business, both through the focus on top line growth as well as ensuring the cost base is efficient.

Portfolio activity
We added new holdings in Target Healthcare, Primary Health Properties, Safestore, Greggs, Halfords, Bytes, Tatton, Gateley, Dunelm, Polar Capital, Impax Asset Management, RWS, Severfield and Stock Spirits.

We exited Cineworld, Burford Capital, Hiscox, Fuller Smith and Turner, Hansteen , Big Yellow, Paypoint, Abcam, Savills and Greggs.

The turnover of the portfolio in 2020 was approximately 27%, broadly in line with 2019 levels. We are long term investors, looking at investment cases on a 3 to 5 year time horizon in general which is in alignment with a 25% turnover. The resource of the small cap team has been enhanced over the last 18 months which has helped to create strong new idea generation, and we have been pleased to have been able to add many new holdings to the portfolio. Whilst Covid-19 created a lot of volatility, we felt very comfortable with the shape of the portfolio and did not have to overly trade the fund to ride through the uncertainty of 2020; our Quality aspects of the portfolio as well as companies more in charge of their own destiny through growth levers, was key to our portfolio resilience.

Stock Spirits Stock Spirits is one of the largest manufacturers and distributors of spirits and liqueurs in Central and Eastern Europe, specialising in vodka, bitters, rum and brandy. It is market leader in the Czech Republic and number two in Poland. The business has the number one or two position in two of the three countries it operates in and has been a beneficiary of changing competitive dynamics and the business should benefit from a favourable pricing environment in a progressively duopolistic market.

In 2018 they made significant changes to the board and senior management and refocused the core strategy on generating growth through value rather than volume. This involved focusing on new product development to move the current portfolio to a more premium offering, both organically and through M&A. The business is adopting digital tools to be closer to their consumer's tastes and trends. The group's performance throughout the pandemic highlights the resilience of the model. On the back of very strong cash conversion and low leverage of 0.3x, the board recommended both a final dividend and a special dividend.

Severfield is the UK's market leading structural steel company, the home of world class engineering and design excellence. With a unique product and services offering, they are leaders in their space. Severfield's strong market position and breadth of end market coverage has been a key element of their resilience this year, with exposure to a number of end markets driving diversification benefits. The management team has successfully managed the group through a series of challenges. The market position is strong, as is the order book and pipeline of opportunities, with many long projects driving revenue visibility. The group has good cash flow characteristics and a strong balance sheet to support their ability to invest, and there is a sector-leading 4.3% dividend yield.

RWS are a specialist services provider with a focus on expert translation in areas such as Life Sciences, IP services (patents), and Localisation (big tech names). Over a number of years they've delivered strong earnings growth, and the diversification of the business gained through investment and acquisitions helps reduce the cyclicality. The Chairman has been instrumental in the development of RWS over the last 17 years. They recently acquired SDL, a UK listed translation business with strong machine translation tools, which they can embed across the business. RWS is an attractive growth business, but did see some disruption impact from Covid-19 decision making and lower activity. They also have a good track record of margin improvement, with good cost control. There are also strong cost synergies to come from the SDL deal, as technology is embedded across the group, and RWS improve the underlying SDL margin. The strong earnings growth we expect from RWS will be supportive of good dividend growth. They maintained the dividend through the Covid-19 period as opposed to increased it but due to their Sept year end the first dividend they had to pay was the interim in June as opposed to many other businesses who withdrew their final dividend in April.

Impax Asset Management is a specialist asset manager with a long track record of excellent performance in the ESG and sustainability space. The management team, headed by the founder of the business, built a platform that is of institutional quality both in terms of process and scalability. Flows have been very strong and they will distribute more cash with scale. The long track record of investing in the ESG space brings strong credibility in the market, and continues to attract clients to their funds. The dividend policy is to pay out 55-80%

of earnings and they paid dividends throughout the year given their excellent fund performance and AUM growth.

Target Healthcare REIT, is a property company, focused on the care home industry. They own the assets, but they are not operators so have no operating risk themselves. The market fundamentals are robust with an ageing population and care burden. 55% of their occupancy is private pay, and 45% public pay. The dividend is fully covered with a 6.5% dividend yield and we expect growth of low single digit percentage. Target properties were well advanced in the vaccination programme; by mid January, the vaccination coverage was 86% of homes, with the remaining 14% expected to commence by the end of the month. This is excellent news for residents, operators and Target; visibility on easing of visitation helping support underlying occupancy. Target operators did a very strong job of ensuring infection rates were low within the homes, peaking at just 3.2%. Whilst Target do not operate the homes, it is important that the operators are maintaining high standards and also operating in a profitable manner. During the year they supported operators as a landlord, easing working capital requirements by helping to source PPE, as well as moving some operators to monthly payment plans. The pandemic has magnified the risks of low quality care home assets where infections have spread widely. This puts Target assets in a strong competitive position in the market. Rent collection has been largely unaffected this year. The dividend remained paid, and will be fully covered in FY22, with likely dividend growth low single digit per year. 94% of leases in the portfolio are RPI linked, with the majority having caps and collars on average of 2-4%, which also provides downside protection in a low inflation environment. Having extended the maturity and size of their debt facilities, this allows the business to acquire further high quality assets, in this structurally growing care home market.

Primary Health Properties (PHP) invests in modern facilities that enable the delivery of primary care, easing the burden of national health requirements on hospitals. The NHS has made this approach central to its policy creating a stable operating environment with steady demand and growing interest from both occupiers and investors. PHP's income focus is underpinned by a strong covenant, with the UK government (NHS) indirectly funding 90% of rental income. PHP has demonstrated resilient rent collection. The income stream is one of most defensive in property, 90% rent backed by the government, with average lease length of 13 years. PHP has increased its dividend every year since its 1996 IPO and has a progressive dividend policy. The balance sheet remains strong, and it has a 4% div yield. In December, PHP announced its intention to internalise its management structure through the acquisition of Nexus, its external advisor. We are supportive of this, with a view the business will be in a stronger position with in-house management, securing the strong management team and aligning them with shareholders. The cost saving of doing so also drove earnings upgrades as well as a 5% increase in the dividend forecasts. Since IPO in 1996, PHP has increased its dividend in every year and generated a total shareholder return of 14% pa. The transaction also brought direct development opportunities into the portfolio which should further enhance returns going forward. Covid-19 has increased pressure on the NHS to provide more care outside of hospitals and in the primary arena, which is a positive for the investment case. It has also highlighted the degree of obsolete older GP surgery stock, to which PHP do not have exposure.

Tatton Asset Management is a founder run Discretionary Fund Management business and is an independent challenger low cost model with very good investment performance. The offer addresses the market and regulator's concerns about fee levels and transparency, through its simple and competitive fee structure. With a capital light model, and clear opportunity to grow revenues we believe the 19% forecast earnings growth rate is likely to be driven further upwards giving confidence in the forecast growing dividend. We were pleased to see Tatton continue to pay dividends this year.

We added a new position in **Gateley,** the law firm**.** Recognising that the traditional broad base partner profit share models don't function effectively, Gateley was the first law firm to IPO and convert to a salary structure in 2015. The business is well diversified in service line and location. We like the quality characteristics of this capital light, high ROCE business with a track record of delivery. Gateley delivered a resilient first half in the face of Covid-19 disruption aided by the group's breadth and diversification across cyclical and counter-cyclical legal and consultancy services. Upon addition to the portfolio the expected dividend yield was 4% with a policy to pay out 70% of earnings. Cash generation remains strong and the board intends to reinstate dividends once the FY21E outcome is known, being one of the names who stepped back from dividends in 2020 due to the uncertain environment.

Dunelm is a UK market leader in homewares, with a strong and improving brand. The new management team has driven enhancement, with the well invested digital platform driving active customers and increasing the group's addressable market. As shopping habits shift, Dunelm is accelerating its market share gains, growing margins and increasing cash returns to shareholders. The business continues to take share of a buoyant homewares market both in store and online. Its strong digital proposition led to a strong performance this year, despite the challenges of instore retailing given Covid-19 restrictions. Margin progress helped deliver strong growth in profits and cash, giving management the confidence to repay furlough benefits, allowing them to re instate dividends and we believe there is the potential to pay a special dividend next year.

Polar Capital is well positioned as a manager of specialist and thematic funds, which we believe plays well to the industry direction of travel which should be supportive of long term earnings growth. The dividend is secure, given the strength of the balance sheet, the dividend being well covered by earnings and a precedent for maintaining the dividend historically. Polar provides a 5% yield, with longer term dividend growth potential. While we understand that part and parcel of being a specialist manager means there will be periods of strong flows and periods of weaker flows, we believe the business is capable of sustaining the improving net flows over the long term given their breadth of product and long term track record of the portfolios. The addition of new funds helps to diversify the business, reducing those risks.

We added a new position in **Halfords** a business we believe is undergoing positive change which should improve both the quality and the growth of the business going forwards. Halfords is the UK's leading retailer of motoring, cycling and leisure products and services and has brand strength. Investment over the past few years has focused on stabilising margins, investing for growth, investing in the online platform. We have been impressed with the current CEO and CFO. In particular there is much tighter control on financials, the supply chain, and on the future returns potential. The business under a new management team are investing in areas which should position them in a stronger competitive position, and capture structural growth. We believe the cash generation and strong balance sheet allows them strong dividend payer in future, whilst still being able to invest in the business.

We participated in the IPO of **Bytes** . Bytes is a value added reseller in the UK technology market, selling to both public and private enterprises. Bytes have a strong track record of sales and profit growth, as well as cash generation. They traded well through the uncertain environment of Covid. They have a net cash balance sheet, and will have a well-founded ability to pay dividends. They expect to pay out 40-50% of adjusted net income as dividends. Forecasts are for high single digit profit growth over the next few years and we believe these forecasts can be upgraded over time.

We started a new position in **Greggs** at the beginning of the year having gained confidence in the momentum in like for like sales growth, as the excellent management team re-engineered the offer and re invigorated the brand. The Coronavirus crisis has been a real challenge for Greggs given the impact on footfall in many locations, and we expect it will take some years to rebuild to pre-Covid-19 earnings. While we have confidence in the ability of the management to rebuild and realign the business in the coming years, the depleted balance sheet makes the holding hard to retain in an income focused portfolio where we have uncertainty about when and to what extent dividends will return, so we exited the holding towards the end of the year as viewed the investment case as having changed.

We switched our exposure within self-storage out of **Big Yellow**, into **Safestore**. Whilst on the face of it the businesses are very similar, we were more optimistic about the earnings outlook for Safestore, with a more geographically diverse exposure within the UK and also France. Safestore management are also more likely to do acquisitions, which we would expect to be earnings accretive. Safestore continued to pay dividends, and the dividend increased by 6% over the previous year.

We exited the small residual in **Robert Walters,** with a view that lower economic growth globally would be a challenging environment for recruitment firms. We also exited the small residual holding in **Cineworld**, with potential closures looking increasingly likely due to the impact of Covid-19 with sites having already limited capacity. Cash generation was becoming increasingly challenged, making the balance sheet looks tougher, and the dividend less likely to be paid.

We have exited the holding in **Burford.** Following the short report by Muddy Waters, we were pleased with many of the actions taken by management; however, given the black box nature of the business we felt it was challenging for the company to provide evidence to put all the concerns to bed. Given our lower risk investment process, and this being a low contributor to income, the holding was exited.

We exited **Paypoint**, the retail consumer services business exposed to small retail locations, following the release of a "statement of objections' from Ofgem, alleging that the company breached competition law since the business held a dominant position in the market for over-the-counter payment services for prepayment energy customers. While at this stage of the investigation, Ofgem's findings are provisional and are without conclusion, there was potential for a fine and the removal of exclusive contracts. While the size of the fine is unknown and unlikely not to be crippling, the uncertainty will be a drag on the shares. Furthermore, we also had concerns around the momentum in the parcel business, working from home meaning fewer people will have the need to direct parcels to their shops. We had governance concerns around the appointment of Chairman as CEO, after the former CEO stepped down due to ill health.

We also exited the holding in **Hiscox**, where there had been a tough environment for large loss events, and the company was screening poorly on the Matrix. We also exited the small holdings in **Fuller Smith and Turner,**

Savills and **Hansteen** (having been bid for) and **Abcam** on less conviction in potential for increased dividends going forward.

Fixed Income portfolio
The modest exposure to fixed income was previously focused on investment grade issuers in the UK utilities sector which is typically a safe haven. The focus is on generating income and avoiding significant capital volatility with this component. That being said, volatility in the first quarter led to some positions being added to the Company's portfolio. Holdings were added in Heathrow Airport, Close Brothers and HSBC with some attractive yields on offer. Heathrow, the UK's largest airport, is understandably suffering some challenging conditions and operating well below capacity. It does, however, have a strong liquidity position and relatively low leverage. The HSBC senior holding company bonds were purchased at a spread of 211 basis points above similar maturity government bonds and are now over 100 basis points tighter, reflecting the improving market. The very short dated Close Brothers bonds were added at a yield to maturity of over 2.2% and redeem in the second quarter of 2021.

Fixed income markets no longer offer yields that are extremely attractive. It is likely that, in the current challenging environment, some volatility will emerge and given that, we would expect to once again take advantage. Policy rates will remain at low levels for some time, underpinning these markets.

Outlook
Not surprisingly, the biggest recovery in earnings next year is expected to come from the most depressed sectors. There are also grounds for believing that the value rally has a little further to run, looking at where some of these sectors' share prices sit relative to pre Covid-19. We would have concerns, however, that the earnings for many of these businesses could take a number of years to recover to those levels, and potentially structural changes mean in some cases the business position has changed forever. Our process focuses on stock selection through fundamental research, identifying resilient businesses led by strong management teams, with many levers for growth; this positions us well to identify businesses who can deliver earnings growth and earnings upgrades. In times of uncertainty, where we expect some businesses in the market will face challenges and disappoint, we think shares will be rewarded for strong earnings profiles. Historically value rallies have been short lived, and in times of much uncertainty, we would hope this is once again the case.

With regard to Brexit, we believe that the UK-EU Trade Agreement has removed many tail risks, and has improved investor sentiment towards UK markets. The portfolio has limited exposure to companies which rely on importing/exporting across the channel, and more recent news has been encouraging on a reduction in rejection rates at ports which helps relieve concern on supply chain delays. Retail does have some supply chain risks, but our recent engagement with companies would suggest current challenges are driven by global activities rather than Brexit. The impact on workforce from the EU is still to be seen; however this is another area the portfolio has limited exposure to. Sectors which are more heavily at risk from disruption are likely to be Healthcare driven by workforces, and Autos with the dominant players in Europe. The portfolio is not exposed to either of these sectors. Target Healthcare is not an operator in care homes, and we think there is less risk given its property owner position. Another sector which could be impacted by labour shortages is food production, but our holding in Hilton Food is globally diverse, and has a high level of automation which limits the people requirement. Overall we have limited concerns about negative impacts from Brexit across the portfolio.

With the removal of Brexit and those tail risks, we have seen M&A activity and IPO activity return to high levels in UK markets as well as increased levels of inflows to UK equities.

We remain cautiously optimistic about smaller companies which tend to lead a market recovery.

However, there are a number of risks to the prevailing investor optimism and earnings outlook . Returning to normal will take time given the challenges in rolling out a mass vaccination programme. We may also see more spikes in infections or mutations that could potentially trigger more lockdowns. Therefore we feel many risks around the economy driven by Covid-19 remain in place. We expect unemployment levels to rise underlying, though the numbers on furlough somewhat muddy the water on true current rates. Many businesses will adapt operationally, some sectors will not recover to pre Covid-19 levels, and companies have taken this opportunity to ensure operational efficiency; all these aspects could lead to job cuts. Moreover, the scale of economic scarring is only likely to become apparent in 2021. Given that the economic crisis is a direct result of government action to combat the virus, monetary and fiscal stimulus will be in place, it seems, for as long as necessary.

The pandemic has made income generation in the form of dividends more difficult. We continue to follow our process and look for stocks that have a long-term track record of reliable dividend growth, and have been pleased with the improvement in dividends being paid through the second half of 2020.

Our experience from this year is that our quality, growth, momentum process has served us well. For the majority of our holdings the crisis was not as bad as the worst expectations given the speed with which companies were able to adapt to changing circumstances, with much of the portfolio exposure in very resilient sectors. We were pleased with the underlying operational performance of the portfolio companies, and their ability and willingness to pay dividends.

Aberdeen Asset Managers Limited*
10 March 2021
**on behalf of Aberdeen Standard Fund Managers Limited.*
Both companies are subsidiaries of Standard Life Aberdeen plc

5. RESULTS AND PERFORMANCE

Performance (Total return)

	1 year % return	3 year % return	5 year % return
Net asset value{A}	-4.1	+10.1	+58.3
Share price (based on mid price){A}	-5.1	+19.4	+71.1
Composite Index{B}	-4.3	-2.9	+26.3
Numis Smaller Companies ex Inv Trust Index	-4.3	+1.4	+34.6
FTSE Small Cap ex Inv Trust Index	+1.7	+3.1	+34.2
FTSE All-Share Index	-9.8	-2.7	+28.5

{A} Considered to be an Alternative Performance Measure. Further details can be found below.

{B} FTSE Small Cap ex Inv Trust Index up to 31 December 2019 and Numis Smaller Companies ex Inv Trust Index from 1 January 2020.

Source: Aberdeen Standard Investments, Lipper & Morningstar

DIVIDENDS

	Rate per share	xd date	Record date	Payment date
First interim dividend	2.06p	2 April 2020	3 April 2020	24 April 2020
Second interim dividend	2.06p	2 July 2020	3 July 2020	24 July 2020
Third interim dividend	2.06p	8 October 2020	9 October 2020	30 October 2020
Fourth interim dividend	2.06p	31 December 2020	4 January 2021	29 January 2021
2020	**8.24p**			
First interim dividend	1.95p	4 April 2019	5 April 2019	26 April 2019
Second interim dividend	1.95p	4 July 2019	5 July 2019	26 July 2019
Third interim dividend	1.95p	3 October 2019	4 October 2019	25 October 2019
Fourth interim dividend	2.40p	2 January 2020	3 January 2020	24 January 2020
2019	**8.25p**			

PORTFOLIO

TEN LARGEST INVESTMENTS

at 31 December 2020

Games Workshop

XP Power

Global retailer of hobbyist products, selling through own retail stores, online, and through trade partners. Owner of the IP of Warhammer.

A power solutions business that designs and manufactures power convertors used by customers to ensure their electronic equipment can function both safely and efficiently. With over 5,000 different products, XP Power can provide a full value add capability to its customers.

Intermediate Capital Group

Global alternative asset manager in private debt, credit and equity.

DiscoverIE Group

DiscoverIE Group is a supplier of niche electronic products, manufacturing customs designed and built electronics to industrial and medical companies across Europe and South Africa.

Assura

Assura is a long-term investor and developer of primary care property, working with general practitioners, health professionals and National Health Services to deliver patient care.

Liontrust Asset Management

UK based asset manager, managing assets across a range of asset classes.

Sirius Real Estate

Germany property business, managing and operating a range of multi use, out of town locations

Softcat

Value added technology reseller in UK

Morgan Sindall

UK leading business in construction and regeneration work.

Telecom Plus

Reseller of telecom and utilities service, under the Utility Warehouse brand.

INVESTMENT PORTFOLIO – EQUITY INVESTMENTS
As at 31 December 2020

At 31 December 2020

Company	Sector classification	Valuation 2020 £'000	Total portfolio %	Valuation 2019 £'000
Games Workshop	Leisure Goods	3,232	3.9	2,030
XP Power	Electronic & Electrical Equipment	3,075	3.7	2,884
Intermediate Capital Group	Financial Services	3,025	3.7	3,603
DiscoverIE Group	Electronic & Electrical Equipment	2,996	3.6	3,626
Assura	Real Estate Investment Trusts	2,956	3.6	3,548
Liontrust Asset Management	Financial Services	2,905	3.5	2,455
Sirius Real Estate	Real Estate Investment & Services	2,778	3.4	1,485
Softcat	Software & Computer Services	2,632	3.2	914
Morgan Sindall	Construction & Building Materials	2,604	3.2	2,747
Telecom Plus	Fixed Line Telecommunications	2,436	2.9	2,551
Ten largest investments		**28,639**	**34.7**	
Hollywood Bowl	Travel & Leisure	2,372	2.9	3,232
AJ Bell	Financial Services	2,303	2.8	2,279
Unite Group	Real Estate Investment Trusts	2,297	2.8	2,793
Hilton Food Group	Food Producers	2,181	2.6	2,149
Aveva Group	Software & Computer Services	2,076	2.5	3,885
Ultra Electronics	Aerospace & Defense	1,923	2.3	1,962
Strix Group	Electronic & Electrical Equipment	1,867	2.3	706
FDM	Software & Computer Services	1,806	2.2	2,939
Safestore Holdings	Real Estate Investment Trusts	1,795	2.2	-
Kesko{A}	Food & Drug Retailers	1,783	2.2	1,263
Twenty largest investments		**49,042**	**59.5**	
Close Brothers	Banks	1,769	2.1	2,046
Chesnara	Life Insurance	1,730	2.1	1,842
Bytes Technology	Software & Computer Services	1,688	2.0	-
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	1,585	2.0	2,610
Diploma	Support Services	1,568	1.9	1,451
Victrex	Chemicals	1,545	1.9	2,507
MJ Gleeson	Household Goods & Home Construction	1,456	1.8	1,768
Tatton Asset Management	Financial Services	1,434	1.7	-
Moneysupermarket	Media	1,316	1.6	1,670
Midwich	Support Services	1,273	1.5	2,169
Thirty largest investments		**64,406**	**78.1**	
Alpha Financial Markets Consulting	Support Services	1,248	1.5	1,392
Marshalls	Construction & Materials	1,237	1.5	1,166
Somero Enterprises	Industrial Engineering	1,218	1.5	755
Halfords	General Retailers	1,148	1.4	-
Dunelm	General Retailers	1,122	1.4	-
Polar Capital Holdings	Financial Services	1,006	1.2	-
Target Health Care	Real Estate Investment Trusts	993	1.2	-
Forterra	Construction & Materials	965	1.2	1,373
Primary Health Properties	Real Estate Investment Trusts	920	1.1	-

Impax Asset Management	Financial Services	905	1.1	-
Forty largest investments		**75,168**	**91.2**	
Stock Spirits Group	Beverages	882	1.1	-
4Imprint Group	Media	855	1.0	1,814
Severfield	Industrial Engineering	825	1.0	-
Fisher (James) & Sons	Industrial Transportation	823	1.0	1,784
RWS Holdings	Support Services	717	0.9	-
Gateley Holdings	Support Services	606	0.7	-
Rathbone Brothers	Financial Services	478	0.6	1,307
Total Equity investments		**80,354**	**97.5**	

{A} All equity investments are listed on the London Stock Exchange (sterling based), except those marked, which are listed on overseas exchanges based in sterling.

INVESTMENT PORTFOLIO – OTHER INVESTMENTS
As at 31 December 2020

At 31 December 2020

Company	**Valuation 2020 £'000**	**Total portfolio %**	**Valuation 2019 £'000**
Corporate Bonds{A}			
NGG Finance 5.625% 18/06/73	458	0.5	-
Close Brothers 3.875% 27/06/21	406	0.5	-
Barclays Bank 9% Perp	364	0.4	374
Heathrow Funding 5.225% 15/02/23	326	0.4	-
SSE 3.625% Var 16/09/77	308	0.4	-
HSBC Holdings 6.5% 20/05/24	238	0.3	-
Total Corporate Bonds	**2,100**	**2.5**	
Total Investments	**82,454**	**100.0**	

{A} All investments are listed on the London Stock Exchange (Sterling based).

DISTRIBUTION OF ASSETS AND LIABILITIES
As at 31 December 2019

	Valuation at 31 December 2019 £'000	%	Movement during the year Purchases £'000	Sales £'000	Gains/ (losses) £'000	Valuation at 31 December 2020 £'000	%
Listed investments							
Equity investments	87,930	106.4	19,508	(22,697)	(4,387)	80,354	104.2
Corporate bonds	878	1.1	1,696	(500)	26	2,100	2.7
	88,808	107.5	21,204	(23,197)	(4,361)	82,454	106.9
Current assets	1,074	1.3				1,935	2.5
Other current liabilities	(235)	(0.3)				(254)	(0.3)
Loans	(6,987)	(8.5)				(6,991)	(9.1)
Net assets	**82,660**	**100.0**				**77,144**	**100.0**
Net asset value per Ordinary share	**373.86p**					**348.91p**	

GOING CONCERN
The Directors believe that it is appropriate to continue to adopt the going concern basis in the preparation of the financial statements.

The Company's assets consist substantially of securities in companies listed on recognised stock exchanges and in normal circumstances are realisable within a short timescale.

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary.

The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan which expires in 2023 and a revolver £5 million loan which expires in 2021. A replacement option for the revolver element of the facility is currently being sought or should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of investments sales as required. £2 million of the revolver loan was drawn down at the date of this report.

The Company undertakes a continuation vote every five years. The last continuation vote was passed at the AGM held in June 2020 with 99.7% of votes in favour.

The Board has considered the impact of Covid-19 and believes that this will have a limited financial impact on the Company's operational resources and existence. Given that the Company's portfolio comprises primarily "Level One" assets (listed on a recognisable exchange and realisable within a short timescale), and the Company's relatively low level of gearing, the Company has the ability to raise sufficient funds so as to remain within its debt covenants and pay expenses.

Taking the above factors into consideration, the Board has a reasonable expectation that the Company has adequate financial resources to continue in operational existence for a period until 31 December 2022 and, accordingly, continues to adopt the going concern basis in preparing the financial statements.

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 they have elected to prepare the financial statements in accordance with International Accounting Standards ('IASs') in conformity with the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards ('IASs') in conformity with the Companies Act 2006; 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 the financial statements comply with the Companies Act 2006. They 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 Corporate Governance Statement that complies 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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
Responsibility statement of the Directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.
- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of Aberdeen Smaller Companies Income Trust PLC
Robert Lister,
Chairman
10 March 2021

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME (AUDITED)

		Year ended 31 December 2020			Year ended 31 December 2019		
		Revenue	Capital	Total	Revenue	Capital	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
(Losses)/gains on investments at fair value	10	-	(4,361)	(4,361)	-	19,661	19,661
Currency losses		-	-	-	-	(12)	(12)
Income	3						
Dividend income		1,766	-	1,766	2,700	-	2,700
Interest income from investments		73	-	73	46	-	46
Other income		2	-	2	8	-	8
		1,841	(4,361)	(2,520)	2,754	19,649	22,403
Expenses							
Investment management fee	4	(158)	(369)	(527)	(163)	(380)	(543)
Other administrative expenses	5	(382)	-	(382)	(314)	-	(314)
Finance costs	6	(55)	(128)	(183)	(61)	(142)	(203)
Profit/(loss) before tax		1,246	(4,858)	(3,612)	2,216	19,127	21,343
Taxation	7	(8)	-	(8)	(10)	-	(10)
Profit/(loss) attributable to equity holders	9	**1,238**	**(4,858)**	**(3,620)**	**2,206**	**19,127**	**21,333**
Return per Ordinary share (pence)	9	**5.60**	**(21.97)**	**(16.37)**	**9.98**	**86.51**	**96.49**

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit attributable to equity holders " is also the "Total comprehensive income attributable to equity holders" as defined in IAS 1 (revised).

All of the profit and comprehensive income are attributable to the equity holders of the Company.

All items in the above statement derive from continuing operations.

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

BALANCE SHEET (AUDITED)

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Non-current assets			
Equities		80,354	87,930
Corporate bonds		2,100	878
Securities at fair value	10	82,454	88,808
Current assets			
Cash and cash equivalents		1,615	780
Other receivables	11	320	294
		1,935	1,074
Current liabilities			
Bank loan	12	(2,000)	(2,000)
Trade and other payables	12	(254)	(235)
		(2,254)	(2,235)
Net current liabilities		(319)	(1,161)
Total assets less current liabilities		82,135	87,647
Non-current liabilities			
Bank loan	13	(4,991)	(4,987)
Net assets		**77,144**	**82,660**
Share capital and reserves			
Called-up share capital	15	11,055	11,055
Share premium account		11,892	11,892
Capital redemption reserve		2,032	2,032
Capital reserve		49,228	54,086
Revenue reserve		2,937	3,595
Equity shareholders' funds		**77,144**	**82,660**
Net asset value per Ordinary share (pence)	16	**348.91**	**373.86**

STATEMENT OF CHANGES IN EQUITY (AUDITED)
Year ended 31 December 2020

Year ended 31 December 2020

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2019		11,055	11,892	2,032	54,086	3,595	82,660
(Loss)/profit for the year		-	-	-	(4,858)	1,238	(3,620)
Dividends paid in the year	8	-	-	-	-	(1,896)	(1,896)
As at 31 December 2020		**11,055**	**11,892**	**2,032**	**49,228**	**2,937**	**77,144**

Year ended 31 December 2019

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2018		11,055	11,892	2,032	34,959	3,114	63,052
Profit for the year		-	-	-	19,127	2,206	21,333
Dividends paid in the year	8	-	-	-	-	(1,725)	(1,725)
As at 31 December 2019		**11,055**	**11,892**	**2,032**	**54,086**	**3,595**	**82,660**

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.
The accompanying notes are an integral part of the financial statements.

CASH FLOW STATEMENT (AUDITED)

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities			
Dividend income received		1,757	2,730
Interest income received		73	47
Other income received		2	8
Investment management fee paid		(533)	(523)
Other cash expenses		(358)	(308)
Cash generated from operations		941	1,954
Interest paid		(177)	(194)
Overseas taxation suffered		(26)	(10)
Net cash inflows from operating activities		738	1,750
Cash flows from investing activities			
Purchases of investments		(21,204)	(23,291)
Sales of investments		23,197	20,987
Net cash inflow/(outflow) from investing activities		1,993	(2,304)
Cash flows from financing activities			
Equity dividends paid	8	(1,896)	(1,725)
Net cash outflow from financing activities		(1,896)	(1,725)
Net increase/(decrease) in cash and cash equivalents		835	(2,279)
Analysis of changes in cash and cash equivalents during the year			
Opening balance		780	3,071
Currency losses		-	(12)
Increase/(decrease) in cash and cash equivalents as above		835	(2,279)
Closing balances		**1,615**	**780**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. **Principal activity.** The Company is a closed-end investment company, registered in Scotland No SC137448, with its Ordinary shares being listed on the London Stock Exchange.

2. **Accounting policies**

(a) **Basis of accounting.** The financial statements of the Company have been prepared in accordance with International Accounting Standards (IASs) in conformity with the Companies Act 2006.

The Company's assets consist substantially of equity shares in companies listed on recognised stock exchanges and in most circumstances are realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan which expires in 2023 and a revolver £5 million loan which expires in April 2021. A replacement option for the revolver element of the facility is currently being sought or should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of investments sales as required. The Company undertakes a continuation vote every five years. The last continuation vote was passed at the AGM held in June 2020 with 99.7% of votes in favour. Having taken these factors into account as well as the impact of Covid-19 and having assessed the principal risks and other matters set out in the Viability Statement above, the Directors believe that, after making enquiries, the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period until at least 31 December 2022. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued in October 2019 to the extent that it is consistent with IASs.

Significant accounting judgements, estimates and assumptions. The preparation of financial statements requires the use of certain significant accounting judgements, estimates and assumptions which requires management to exercise its judgement in the process of applying the accounting policies and are continually evaluated. The area requiring most significant judgement and assumption in the financial statements is the determination of the fair value hierarchy classification of quoted bonds which have been assessed as being Level 2 as they don't trade actively. Another area of judgement includes the assessment of whether special dividends should be allocated to revenue or capital based on their individual merits. The Directors do not consider there to be any significant estimates within the financial statements.

New and amended accounting standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2020:

- IAS 1 and IAS 8 Amendments: Definition of Material
- IFRS 9, IAS 39 and IFRS 7 Amendments: Interest Rate Benchmark Reform

Future amendments to standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2021:

- IAS 39, IFRS 4, 7, 9 and 16 Amendments: Interest Rate Benchmark Reform

The Company intends to adopt the Standards and Interpretations in the reporting period when they become effective and the Board does not anticipate that the adoption of these Standards and Interpretations in future periods will materially impact the Company's financial results in the period of initial application although there may be revised presentations to the Financial Statements and additional disclosures.

(b) **Investments.** The Company has adopted the classification and measurement provisions of IFRS 9 'Financial Instruments'.

The Company classifies its equity investments and debt instruments based on their contractual cash flow characteristics and the Company's business model for managing the assets. Equity investments fail the contractual cash flows test so are measured at fair value. For debt instruments, the business model is the determining feature and they are managed, performance monitored and risk evaluated, on a fair value basis. The Manager is also compensated based on the fair value of the Company's assets. Consequently, all investments are measured at fair value through profit or loss.

Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are measured at fair value. For listed investments, the valuation of investments at the year end is deemed to be bid market prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange.
Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

(c) **Income.** Dividend income from equity investments, including preference shares which have a discretionary dividend is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date.
Interest from debt securities, and income from preference shares which do not have a discretionary dividend are accounted for on an accruals basis. Any write-off of the premium or discount on acquisition as a result of using this basis is allocated against the revenue reserve. The SORP recommends that such a write-off should be allocated against revenue. In the prior year, the premium or discount was allocated to capital.
Interest receivable on AAA rated money market funds and short term deposits are accounted for on an accruals basis.

(d) **Expenses.** All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% to revenue and 70% to capital (2019 - same), in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. This allocation is reviewed on a regular basis.

(e) **Cash and cash equivalents.** Cash comprises cash in hand and demand deposits. Cash equivalents includes bank overdrafts repayable on demand and short term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

(f) **Borrowings.** At and after initial measurement, bank borrowings are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate. The finance costs of such borrowings are accounted for on an accruals basis using the effective interest rate method and are charged 30% to revenue and 70% to capital in the Statement of Comprehensive Income to reflect the Company's investment policy and prospective income and capital growth.

(g) **Taxation.** The tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense 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 were applicable at the Balance Sheet date.
Deferred tax is recognised in respect of all temporary differences at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the Balance Sheet date. 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 temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise, using tax rates that are expected to apply at the date the deferred tax position is unwound.
The SORP requires that a transfer should be made from income to capital equivalent to the tax value of any management expenses that arise in capital but are utilised against revenue. The Directors consider that this requirement is not appropriate for an investment trust with an objective to provide a high and growing dividend that does not generate a corporation tax liability. Given there is only one class of shareholder and hence overall the net effect of such a transfer to the net asset value of the shares is nil no such transfer has been made.

(h) **Foreign currencies.** Monetary assets and liabilities and non-monetary assets held at fair value denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the reporting date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Gains or losses arising from a change in exchange rates subsequent to the date of a transaction are included as a currency gain or loss in revenue or capital in the Statement of Comprehensive Income, depending on whether the gain or loss is of a revenue or capital nature.

(i) **Nature and purpose of reserves**

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 50p per share. This reserve is not distributable.

Capital redemption reserve. The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital. This reserve is not distributable.

Capital reserve. This reserve reflects any gains or losses on investments realised in the period along with any increases and decreases in the fair value of investments held that have been recognised in the Statement of Comprehensive Income. These include gains and losses from foreign currency exchange differences. Additionally, expenses, including finance costs, are charged to this reserve in accordance with (d) above. This reserve is not distributable except for the purpose of funding share buybacks to the extent that gains are deemed realised.

Revenue reserve. This reserve reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income. The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

(j) **Dividends payable.** Interim dividends are recognised in the financial statements in the period in which they are paid.

(k) **Segmental reporting.** The Directors are of the opinion that the Company is engaged in a single segment of business activity, being investment business. Consequently, no business segmental analysis is provided.

3. Income

	2020	**2019**
	£'000	**£'000**
Income from investments		
Dividend income from UK equity securities	1,295	2,086
Dividend income from overseas equity securities	271	355
Property income distributions	200	259
	1,766	2,700
Interest income from investments	73	46
	1,839	2,746
Other income		
Bank interest	2	8
Total revenue income	**1,841**	**2,754**

4. Management fee

	2020			**2019**		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Management fee	**158**	**369**	**527**	**163**	**380**	**543**

For the years ended 31 December 2020 and 31 December 2019 management services were provided by Aberdeen Standard Fund Managers Limited ("ASFML"). The management fee was calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. The balance due to ASFML at the year end was £94,000 (2019 - £100,000). The fee is allocated 30% (2019 - 30%) to revenue and 70% (2019 - 70%) to capital.

The agreement is terminable on twelve months' written notice from the Company or the Manager, however, the Company may terminate the agreement on immediate notice on the payment to the Manager of six months' fees in lieu of notice.

5. Other administrative expenses

	2020	2019
	£'000	£'000
Directors' fees	117	107
Auditor's remuneration:		
- fees payable for the audit of the annual accounts	32	24
Promotional activities	44	39
Legal and professional fees	23	(11)
Registrars' fees	21	15
Printing and postage	22	19
Broker fees	36	36
Directors' & Officers' liability insurance	7	7
Trade subscriptions	27	27
Other expenses	53	51
	382	**314**

Expenses of £44,000 (2019 - £39,000) were paid to ASFML in respect of the promotion of the Company. The balance outstanding at the year end was £22,000 (2019 - £33,000).
All of the expenses above, with the exception of the auditor's remuneration, include irrecoverable VAT where applicable. The VAT charged on the auditor's remuneration is included within other expenses. In addition the VAT charged on applicable Directors fees in 2019 is included within other expenses.

6. Finance costs

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	**55**	**128**	**183**	**61**	**142**	**203**

7. Taxation

(a) Analysis of charge for the year

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Overseas withholding tax	8	-	8	10	-	10
Total tax charge for the year	**8**	**-**	**8**	**10**	**-**	**10**

(b) Factors affecting tax charge for the year. The UK corporation tax rate was 19% throughout the year (2019 - 19%). The tax assessed for the year is lower than the corporation tax rate. The differences are explained below:

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total

	£'000	£'000	£'000	£'000	£'000	£'000
Profit/(loss) before tax	1,246	(4,858)	(3,612)	2,216	19,127	21,343
Taxation of profit/(loss) at the effective standard rate of corporation tax	237	(923)	(686)	421	3,634	4,055
Effects of:						
Non taxable UK dividend income	(246)	-	(246)	(373)	-	(373)
Currency gains	-	-	-	-	2	2
Capital losses/(gains) disallowed for the purposes of corporation tax	-	829	829	-	(3,735)	(3,735)
Non taxable overseas income not subject to tax	(51)	-	(51)	(68)	-	(68)
Excess management expenses not utilised	60	94	154	20	99	119
Irrecoverable overseas withholding tax	8	-	8	10	-	10
Total tax charge for the year	**8**	**-**	**8**	**10**	**-**	**10**

(c) **Factors that might affect future tax charges.** No provision for deferred tax has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust company.

At the period end, after offset against income taxable on receipt, there is a potential deferred tax asset of £2,951,000 (2019 - £2,500,000) in relation to surplus management expenses. It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

8. Dividends

	2020	2019
	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for 2019 of 2.40p (2018 - 1.95p) per Ordinary share	531	431
First interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
	1,896	**1,725**

The fourth interim dividend of 2020 of 2.06p per share has not been included as a liability in these financial statements.

The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £1,238,000 (2019 - £2,206,000).

	2020	2019

	£'000	£'000
First interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Fourth interim dividend for 2020 of 2.06p (2019 - 2.40p) per Ordinary share	455	531
	1,820	**1,825**

8. Dividends

	2020	2019
	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for 2019 of 2.40p (2018 - 1.95p) per Ordinary share	531	431
First interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
	1,896	**1,725**

The fourth interim dividend of 2020 of 2.06p per share has not been included as a liability in these financial statements.
The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £1,238,000 (2019 - £2,206,000).

	2020	2019
	£'000	£'000
First interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	432
Second interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Third interim dividend for 2020 of 2.06p (2019 - 1.95p) per Ordinary share	455	431
Fourth interim dividend for 2020 of 2.06p (2019 - 2.40p) per Ordinary share	455	531
	1,820	**1,825**

10. Non-current assets - securities at fair value

	2020	2019
	£'000	£'000
Listed on recognised stock exchanges:		
United Kingdom	80,671	86,060
Overseas	1,783	2,748

	2020	2019
	82,454	**88,808**

	2020	2019
	£'000	**£'000**
Opening book cost	56,436	50,945
Investment holdings gains	32,372	15,898
Opening fair value	88,808	66,843
Analysis of transactions made during the year		
Purchases	21,204	23,285
Sales - proceeds	(23,197)	(20,981)
(Losses)/gains on investments	(4,361)	19,661
Closing fair value	**82,454**	**88,808**
Closing book cost	60,215	56,436
Closing investment holdings gains	22,239	32,372
Closing fair value	**82,454**	**88,808**

The Company received £23,197,000 (2019 - £20,981,000) from investments sold in the year. The book cost of these investments when they were purchased were £17,425,000 (2019 - £17,711,000). 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 (losses)/gains on investments in the Statement of Comprehensive Income. The total costs were as follows:

	2020	2019
	£'000	**£'000**
Purchases	74	98
Sales	15	15
	89	113

The above transaction costs are calculated in line with the AIC SORP. The transaction costs in the Company's Key Information Document are calculated on a different basis and in line with the PRIIPs regulations.

11. Other receivables

	2020	2019
	£'000	**£'000**
Accrued income & prepayments	320	294
	320	**294**

None of the above amounts are overdue.

12. Current liabilities

		2020	2019
		£'000	£'000
(a)	**Short-term loan**	2,000	2,000

The Company has in place a £10 million loan facility with Royal Bank of Scotland International Holdings (RBSI) which comprised of two £5 million tranches. Tranche A is a three year £5 million multi-currency revolving credit facility which expires in April 2021. £2 million was drawn down from this facility at 31 December 2020 at a rate of 0.98713% until 27 January 2021 and at the date of this Report £2 million was drawn down at a rate of 0.98471% until 26 March 2021. Tranche B is a five year £5 million fixed rate loan facility and was fully drawn down on 28 April 2018. The interest on Tranche B is fixed at 2.825% per annum payable quarterly in arrears. The Directors are of the opinion that the fair value of the short term bank loan at 31 December 2020 is not materially different from the book value.

		2020	2019
(b)	**Trade and other payables**	**£'000**	**£'000**
	Investment management fee	94	100
	Interest payable	29	27
	Sundry creditors	131	108
		254	**235**

13. Non-current liabilities

	2020	2019
	£'000	£'000
Fixed rate loan	4,991	4,987

All financial liabilities are measured at amortised cost. The fair value of the fixed rate loan has been calculated as £5,177,000 (2019 - £5,086,000) and would be classified as a Level 2 liability under Fair Value Hierarchy guidance of IFRS 13 'Fair Value Measurement'.

14. Analysis of changes in financing liabilities during the year. The following table shows the movements during the year of financing liabilities in the Balance Sheet:

	2020	2019
	£'000	£'000
Opening balance at 1 January	6,987	6,983
Amortisation of arrangement costs	4	4
Closing balance at 31 December	**6,991**	**6,987**

15. Called-up share capital

Ordinary shares

	of 50 pence each	
	Number	**£'000**
Authorised	**35,000,000**	**17,500**
Allotted and fully paid		
At 31 December 2020 and 31 December 2019	**22,109,765**	**11,055**

16. **Net asset value per share.** The net asset value per Ordinary share and the net asset value attributable to the Ordinary shares at the year end were as follows:

	2020	**2019**
Net asset value attributable (£'000)	**77,144**	82,660
Number of Ordinary shares in issue	**22,109,765**	22,109,765
Net asset value per share (p)	**348.91**	373.86

17. **Financial instruments and risk management.** The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise UK listed equities and corporate fixed interest bonds, cash balances, 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 may enter into derivative transactions for the purpose of managing market risks arising from the Company's activities though there was no exposure to derivative instruments during the year.

The Board has delegated the risk management function to Aberdeen Standard Fund Managers Limited ("the AIFM" or "ASFML") under the terms of its management agreement with ASFML (further details of which are included under note 4). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period.

Risk management framework. The directors of ASFML collectively assume responsibility for ASFML's obligations under the AIFMD including reviewing investment performance and monitoring the Company's risk profile during the year.

ASFML is a fully integrated member of the Standard Life Aberdeen plc group of companies (referred to as "the Group"), which provides a variety of services and support to ASFML in the conduct of its business activities, including in the oversight of the risk management framework for the Company. The AIFM has delegated the day to day administration of the investment policy to Aberdeen Asset Managers Limited, which is responsible for ensuring that the Company is managed within the terms of its investment guidelines and the limits set out in FUND 3.2.2R (details of which can be found on the Company's website). The AIFM has retained responsibility for monitoring and oversight of investment performance, product risk and regulatory and operational risk for the Company.

The AIFM conducts its risk oversight function through the operation of the Group's risk management processes and systems which are embedded within the Group's operations. The Group's Risk Division supports management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Compliance, Business Risk, Market Risk, Risk Management and Legal. The team is headed up by the Group's Head of Risk, who reports to the Chief Executive Officer of the Group. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system ("SHIELD").

The Group's Internal Audit Department is independent of the Group's Risk Division and reports directly to the Chief Executive Officer and to the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment.

The Group's corporate governance structure is supported by several committees to assist the board of directors of the Group, its subsidiaries and the Company to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those committees that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described on the committees' terms of reference.

Risk management. The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk and price risk), (ii) liquidity risk and (iii) credit risk.

(i) **Market 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 two elements -

interest rate risk and price risk.
Interest rate risk. Interest rate risk is the risk that interest rate movements will affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

Management of the risk. The Board will monitor the effects of interest movements closely to take account of when making investment and borrowing decisions.
The Board reviews on a regular basis the values of the fixed interest rate securities.

Interest rate profile. The interest rate risk profile of the portfolio of financial assets and liabilities (excluding equity shares) at the Balance Sheet date was as follows:

As at 31 December 2020	**Weighted average period rate is fixed Years**	**Weighted average interest rate %**	**Fixed rate £'000**	**Floating rate £'000**
Assets				
Corporate bonds	25.57	5.02	2,100	-
Cash	-	-	-	1,615
Total assets	-	-	2,100	1,615
Liabilities				
Short-term bank loan	0.07	0.99	(2,000)	-
Fixed rate bank loan	2.32	2.83	(5,000)	-
Total liabilities	-	-	(7,000)	-
Total	**-**	**-**	**(4,900)**	**1,615**

As at 31 December 2019	**Weighted average period rate is fixed Years**	**Weighted average interest rate %**	**Fixed rate £'000**	**Floating rate £'000**
Assets				
Corporate bonds	40.66	5.38	878	-
Cash	-	-	-	780
Total assets	-	-	878	780
Liabilities				
Short-term bank loan	0.08	1.66	(2,000)	-
Fixed rate bank loan	3.32	2.83	(5,000)	-
Total liabilities	-	-	(7,000)	-
Total	**-**	**-**	**(6,122)**	**780**

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans are based on the applicable interest rate payable, weighted by the total value of each of the loans. The maturity dates of the Company's loans are shown in note 12 to the financial statements.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

Short-term debtors and creditors, with the exception of bank loans, have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Interest rate sensitivity. The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the Balance Sheet date and 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 25 basis points higher or lower (based on the current parameter used by the Manager's Investment Risk Department on risk assessment) and all other variables were held constant, the Company's revenue return for the year ended 31 December 2020 would decrease/increase by £14,000 (2019 - decrease/increase by £16,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end.

The capital return would decrease/increase by £116,000 (2019 - increase/decrease by £7,000) using VAR ("Value at Risk") analysis based on a 10% shock to interest rates on the fixed interest portfolio positions at each year end.

Price risk. Price risks (i.e. changes in market prices other than those arising from interest rate) will affect the value of the quoted investments. The Company's stated objective is to provide a high and growing dividend with capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Management of the risk. It is the Company'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 to specific sectors and the stock selection process, as detailed on pages 85 and 86 of the published 2020 Annual Report, 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. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Kesko, which is traded on the Helsinki Exchange.

Price sensitivity. If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, net capital gains attributable to Ordinary shareholders for the year ended 31 December 2020 would have increased by £8,035,000 (2019 - £8,793,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, net capital gains attributable to Ordinary shareholders for the year ended 31 December 2020 would have decreased by £8,035,000 (2019 - £8,793,000). This is based on the Company's equity investments held at each year end.

(ii) **Liquidity risk.** This is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair value or from the inability to generate cash inflows as required.

Management of the risk. Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan facilities (note 12).

Maturity profile. The maturity profile of the Company's financial liabilities at the Balance Sheet date was as follows:

	Within 1 year	**Within 1-2 years**	**Within 2-3 years**	**Within 3-4 years**
At 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**
Trade and other payables	(254)	-	-	-
Bank loans	(2,000)	-	(5,000)	-
Interest on bank loans	(143)	(141)	(70)	-

	(2,397)	**(141)**	**(5,070)**	**-**

	Within 1 year	Within 1-2 years	Within 2-3 years	Within 3-4 years
At 31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**
Trade and other payables	(235)	-	-	-
Bank loan	(2,000)	-	-	(5,000)
Interest on bank loans	(141)	(141)	(109)	(70)
	(2,376)	**(141)**	**(109)**	**(5,070)**

(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.

Management of the risk. The Company considers credit risk not to be significant as it is actively managed as follows:

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- investment transactions are carried out on a delivery versus payment basis with a large number of brokers, whose credit-standing is reviewed periodically by the 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 daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- 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 Balance Sheet, the maximum exposure to credit risk at 31 December was as follows:

	2020		**2019**	
	Balance Sheet	**Maximum exposure**	**Balance Sheet**	**Maximum exposure**
	£'000	**£'000**	**£'000**	**£'000**
Non-current assets				
Quoted bonds at fair value through profit or loss	2,100	2,100	878	878
Current assets				
Accrued income	320	320	294	294
Cash and cash equivalents	1,615	1,615	780	780
	4,035	**4,035**	**1,952**	**1,952**

None of the Company's financial assets are past due and the application of the expected credit loss model for impairment under IFRS 9 has not had a material impact on the Company.

Credit ratings. The table below provides a credit rating profile using Fitch's credit ratings for the quoted bonds at 31 December 2020 and 31 December 2019:

	2020	2019
	£'000	£'000
A+	238	-
A-	732	-
BB+	308	-
BBB	364	374
BBB-	458	504
	2,100	**878**

Fair value of financial assets and liabilities. The book value of cash at bank and short-term bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices and have been categorised as Level 1 and Level 2 within the Fair Value Hierarchy table below. For details of bond maturities and interest rates, see above. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity. The fair value of the long-term loan has been calculated at £5,177,000 as at 31 December 2020 (2019 - £5,086,000) compared to an accounts value in the financial statements of £4,991,000 (2019 - £4,987,000) (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency.
Gearing. The Company has in place a £10 million unsecured loan facility of which £7 million has been drawn down. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate. Gearing levels are monitored so that they remain within guidelines set by the Board.

18. **Capital enhancement.** The SORP recommends that debt securities are accounted for on an effective yield basis with the associated adjustment being allocated to revenue. The Company has allocated this to revenue in the current year, however, in the prior year, the Company decided to allocate this adjustment to capital as explained in note 2(c). The effect of this treatment in the prior year was to decrease revenue and increase capital by £11,000.

19. **Fair value hierarchy.** Under IFRS 13 'Fair Value Measurement' an entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Balance Sheet are grouped into the fair value hierarchy at 31 December 2020 as follows:

		Level 1	Level 2	Level 3	Total
	Note	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	80,354	-	-	80,354
Quoted bonds	b)	-	2,100	-	2,100
Total		**80,354**	**2,100**	**-**	**82,454**

As at 31 December 2019

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	87,930	-	-	87,930
Quoted bonds	b)	-	878	-	878
Total		**87,930**	**878**	**-**	**88,808**

a) **Quoted equities.** The fair value of the Company's investments in quoted equities has been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) **Quoted bonds**. The fair value of the Company's investments in quoted bonds has been determined by reference to their quoted bid prices at the reporting date. Investments categorised as Level 2 are not considered to trade actively as Level 1 assets.

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during any of the above periods.

20. Related party transactions

Directors fees and interests. Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on pages 51 and 52 of the published 2020 Annual Report**.**

Transactions with the Manager. Management, promotional activities, secretarial and administration services are provided by ASFML, with details of transactions during the year and balances outstanding at the year end disclosed in notes 4 and 5.

21. Capital management policies and procedures. The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities**.**

The Company manages its capital, comprising borrowings and share capital and reserves, 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 level of net gearing at the year end was 7.0% (2019 - 7.5%) as defined within the "Alternative Performance Measures" section below.

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 in issue; and
- 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.

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures 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 IFRS 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.

Total return. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Total return is considered to be an alternative performance measure. NAV total return involves investing the same net dividend in the NAV of the Company with debt at par value on the date on which that dividend was earned. Share price total return involves reinvesting the net dividend on the date that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 December 2020 and 31 December 2019.

2020	Dividend rate	NAV	Share price
31 December 2019	N/A	373.86p	343.00p
2 January 2020	2.40p	374.10p	341.50p
2 April 2020	2.06p	253.97p	216.00p
2 July 2020	2.06p	309.67p	258.00p
8 October 2020	2.06p	320.93p	260.00p
31 December 2020	2.06p	348.91p	313.00p
Total return		**-4.1%**	**-5.1%**

2019	Dividend rate	NAV	Share price
31 December 2018	N/A	285.18p	224.00p
3 January 2019	1.95p	282.14p	225.50p
4 April 2019	1.95p	319.23p	270.50p
4 July 2019	1.95p	334.38p	288.50p
3 October 2019	1.95p	312.35p	273.50p
31 December 2019	N/A	373.86p	343.00p
Total return		**+34.4%**	**57.7%**

Discount to Net Asset Value per Ordinary share. The discount is the amount by which the share price is lower than the net asset value per share, expressed as a percentage of the net asset value.

		2020	2019
NAV per Ordinary share (p)	a	348.9	373.9
Share price (p)	b	313.0	343.0
Discount	(b-a)/a	10.3%	8.3%

Dividend cover. Dividend cover is the revenue return per share divided by dividends per share expressed as a ratio.

		2020	2019
Revenue return per share	a	5.60p	9.98p
Dividends per share	b	8.24p	8.25p
Dividend cover	a/b	0.68	1.21

Net gearing. Net gearing measures the total borrowings of £6,991,000 (31 December 2019 – £6,987,000) less cash and cash equivalents of £1,615,000 (31 December 2019 - £780,000) divided by shareholders' funds of £77,144,000 (31 December 2019 - £82,660,000), expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due to and from brokers at the year end of £nil (2019 - £nil) as well as cash and cash equivalents of £1,615,000 (2019 - £780,000).

Ongoing charges. Ongoing charges is considered to be an alternative performance measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average daily net asset values with debt at fair value throughout the year.

	2020	2019
Investment management fees (£'000)	527	543
Administrative expenses (£'000)	382	314

Less: non-recurring charges{A} (£'000)	(23)	-
Ongoing charges (£'000)	**886**	**857**
Average net assets (£'000)	**70,608**	**71,351**
Ongoing charges ratio (excluding look-through costs)	**1.25%**	**1.20%**
Look-through costs{B}	**0.10%**	**0.20%**
Ongoing charges ratio (including look-through costs)	**1.35%**	**1.40%**

{A} Professional services comprising new director recruitment costs and legal fees considered unlikely to recur.

{B} Costs associated with holdings in collective investment schemes as defined by the Committee of European Securities Regulators' guidelines on the methodology for the calculation of the ongoing charges figure, issued on 1 July 2010.

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations, which includes financing and transaction costs.

For Aberdeen Smaller Companies Income Trust PLC
Aberdeen Asset Management PLC, Secretaries