Aberforth Smaller Companies Trust plc

Half Yearly Report
30 June 2013

Investment Objective

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than on the Numis Smaller Companies Index (excluding Investment Companies) over the long term.

Contents

All data throughout this Half Yearly Report are to, or as at, 30 June 2013 as applicable, unless otherwise stated.

Performance Summary

Six months to 30 June 2013 – Total return

	%
Net Asset Value[1]	16.8
Numis Smaller Companies Index (XIC)[2]	13.2
Ordinary Share Price[3]	19.1

Historic Returns

Discrete Annual Returns (%) Period	NAV[1]	Index[2]	Share Price[3]
1 year to 30.6.13	36.3	31.8	44.6
1 year to 30.6.12	-8.7	-4.1	-12.6
1 year to 30.6.11	36.3	34.2	36.3
1 year to 30.6.10	18.9	28.0	15.2
1 year to 30.6.09	-16.6	-12.4	-8.5

Annualised Returns (%) Period to 30.6.13	NAV[1]	Index[2]	Share Price[3]
3 years from 30.6.10	19.2	19.3	19.9
5 years from 30.6.08	10.9	13.7	12.7
10 years from 30.6.03	12.0	13.5	11.4
15 years from 30.6.98	11.5	9.0	12.1
Since inception on 10.12.90	13.8	11.1	13.2

Cumulative Returns (%) Period to 30.6.13	NAV[1]	Index[2]	Share Price[3]
3 years from 30.6.10	69.6	69.7	72.4
5 years from 30.6.08	68.1	90.3	81.8
10 years from 30.6.03	209.4	254.5	195.0
15 years from 30.6.98	413.7	265.3	454.6
Since inception on 10.12.90	1,741.4	983.1	1,534.3

1 Represents Net Asset Value (Fully Diluted Net Asset Value prior to 1 April 2003) with dividends reinvested.

2 Represents the return on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with dividends reinvested (prior to 1 January 1997 in its "Extended" version). This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2013 consisted of 389 companies, the largest market capitalisation of which was £1.428 billion and the aggregate market capitalisation of which was £141 billion.

3 Represents Ordinary Share price with dividends reinvested.

Chairman's Statement

For the six months to 30 June 2013, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of 16.8%, which compares with a total return of 13.2% from the Company's investment benchmark, the Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)). Meanwhile, the larger company oriented FTSE All-Share Index registered a total return of 8.5%. Over the period, smaller companies thus gave a return that was 4.7 percentage points higher than that of the FTSE All Share, while ASCoT's NAV total return exceeded the FTSE All-Share by 8.3 percentage points.

In last year's Half Yearly Report, I highlighted the impact on the investment landscape of government bond yields that were at 100 year lows. Twelve months on, I am reporting on a period that saw, in its closing weeks, yields rise sharply around the world. The Managers' Report expands on this topic while also highlighting the other influences on both markets and the Company during the past six months. One such factor is income: it is encouraging to see the dividend environment remaining positive despite the general lacklustre economic backdrop. This is allowing your Board to pursue the Company's progressive dividend policy with a 5.0% rise in the first interim dividend to 7.35p per Ordinary Share for the year to 31 December 2013. The first interim dividend will be paid on 22 August 2013.

Gearing remains relatively unchanged over the period and, as at 30 June 2013, stood at 7.1% of shareholders' funds. Gearing is of a tactical rather than structural nature with its level driven by valuations of the investee companies which remain particularly low in the "smaller small" segment of the NSCI (XIC).

At the Annual General Meeting on 5 March 2013, all resolutions were passed, including the renewal of authority to buy in up to 14.99% of ASCoT's Ordinary Shares. During the six months to 30 June 2013, 135,000 Ordinary Shares (0.1% of the issued share capital) were purchased under this authority for a total consideration of £1m at an average discount of 15.5%. Your Board keeps under review the circumstances in which the authority is utilised in relation to the overall objective of seeking to manage the discount.

Given the length of Ernst & Young's audit tenure, the Audit Committee decided during the period to undertake a review of the current auditor's engagement. This decision was supported by subsequent revisions to the UK corporate governance code, which suggested a tender exercise should be completed at least every ten years. Following a full audit tender process, the Board approved the appointment of Deloitte as the Company's auditor in respect of the current financial year. The Audit Committee wishes to thank Ernst & Young for their services over the years and looks forward to working with Deloitte in future.

Chairman's Statement

The Board and its advisers continue to devote considerable time and effort to analysing and understanding the implications of the Alternative Investment Fund Managers Directive. Whilst several matters remain to be clarified by the regulator, the Board's current working assumption is that the Managers will be appointed as the Alternative Investment Fund Manager of the Company by 22 July 2014. The Company will be required by the regulations to appoint a Depositary, also by 22 July 2014, though the ongoing costs of this have yet to be determined.

Your Board also continues to monitor the impact of the Retail Distribution Review with a view to identifying opportunities to broaden the demand for the Company's Ordinary Shares. Ensuring that investment management fees remain competitive in this environment is important. In this regard, I can report that the Board has agreed a revised tariff with the Managers, backdated to the start of the current financial year. Reflective of the success in growing the Company's net assets, the Managers have agreed that a reduced rate of fees is appropriate where net assets exceed £800 million. Further details are disclosed in Note 2 on page 19.

The period after the global financial crisis has witnessed depressed economic activity in the UK and exceptionally low bond yields. The Board fully understands the Managers' value investing philosophy and current bias of the portfolio towards "smaller small" companies. It has been encouraging that over the past eighteen months leadership from the "growth stocks" has waned and we have witnessed an improvement in the Company's relative performance. Your Board is confident that the Managers' experience and consistency of approach will continue to benefit ASCoT over the longer term.

Professor Paul R Marsh
Chairman

18 July 2013

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Managers' Report

Introduction

The strong performance of equity markets in 2012 was sustained in the first half of 2013. In May the FTSE All-Share exceeded its 2007 peak in capital only terms. It subsequently retreated but nevertheless achieved a total return 8.5% over the six month period. However, this performance was outstripped by that of small companies, reflected by the NSCI (XIC)'s total return of 13.2%. With an NAV total return of 16.8%, ASCoT performed relatively well.

Equities started their recent ascent in July 2012, following the weak returns of the second quarter of that year. It is tempting to identify the turning point as Mario Draghi's speech in July 2012 in which he claimed that the European Central Bank would do "whatever it takes" to sustain the euro. This was followed by the Eurozone's adoption of additional stimulus in the form of "outright monetary transactions". These developments allowed financial markets to shift their focus from the apparent threat of imminent implosion of the Eurozone and to lengthen investment horizons. New life was thus breathed into a range of riskier financial assets, equities included.

As the ensuing bull market extended to a year and was unpunctuated by periodic lurches into pessimism, challenges arose to the "risk-on, risk-off" paradigm, which has usefully but tediously described the behaviour of financial markets since the global financial crisis. The search was on for catchy new terms to rationalise what was going on. Two plausible candidates were "yieldfall" and the "great rotation".

"Yieldfall" essentially takes the implications of quantitative easing to the next stage. QE has benefited government bond markets, driving yields down to very low levels, but investors still crave income. Money has thus moved on to target higher yielding financial assets such as equities. The initial beneficiaries in this next stage have been large blue chip companies with low volatility and above average yields, which is to say the most bond-like of equities. However, it is plausible that members of ASCoT's portfolio and investment universe have at the margin benefited from this phenomenon in recent months. The problem with "yieldfall" is that it is a finite process, unless unconventional monetary measures succeed in their original goal – the stimulus of the real economy.

This is where the "great rotation" comes in. The concept here is that economic growth and/or inflation pick up to challenge the very low yields offered by bonds and to encourage a rotation from bonds into equities. This scenario can be seen as a return to normality: the "reverse yield gap" is re-established with bond yields moving above equity yields, which was the norm from the late 1950s until the global financial crisis. While the logic for such a rotation occurring at some point is sound, evidence to date is limited. Inflows into equities have tended to be funded by cash, while bond funds enjoyed further inflows through the first half. Meanwhile, economic developments, which are considered in the **Outlook** section of this report, are encouraging but not yet convincing.

Of course, while the "great rotation" offers a relatively attractive vision for equities, getting there can be a fraught process. History suggests that equities rarely escape unscathed in the short term when bond yields begin to move up. This is the best explanation for the weakness in equities towards the end of the period: commentary from Federal Reserve officials in the US heralded a quicker than expected reduction in, or "tapering" of, QE. But if this happens in response to more robust economic activity, it will ultimately prove a nice problem to have!

Managers' Report

Investment Performance

ASCoT's NAV total return was 16.8% in the first half of 2013. This performance benefited from ASCoT's tactical gearing, which averaged 6% through the period. The table below quantifies this benefit and shows other factors contributing to the trust's relative performance.

For the six months ended 30 June 2013	Basis points
Stock selection	304
Sector selection	(63)
Attributable to the portfolio of investments, based on mid prices	241
Movement in mid to bid price spread	51
Cash/gearing	112
Purchase of ordinary shares	2
Management fee	(42)
Other expenses	(3)
Total attribution based on bid prices	**361**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = +16.77%; Benchmark Index = +13.16%; difference is 3.61% being 361 basis points).

The positive attribution at the portfolio level was driven by Stock selection, which is in contrast to the outcome in 2012. It is worth restating that, irrespective of the result of the attribution calculation, your Managers' investment process is "bottom-up": the portfolio profile is determined by decisions on individual companies. The following paragraphs describe some of the themes that characterise the portfolio and that have influenced performance over the last six months.

Investment style & size

Your Managers use Style Research's model (an independent performance analysis firm) to identify and quantify short term style trends. In the first half of 2013, this analysis suggests that growth companies out-performed value companies and that, within the confines of the NSCI (XIC), larger companies outstripped smaller companies. Therefore, the influences of style and size represented headwinds to ASCoT's performance, given your Managers' commitment to their value investment principles and the preponderance of attractive valuations on offer among the smaller constituents of the NSCI (XIC). However, looking beyond the output of Style Research's model, your Managers believe that style influences have been less pronounced over the past twelve months than in the aftermath of the global financial crisis. In a trend no doubt related to the strong performance of equities against bonds since the middle of 2012, the stockmarket has become less fixated with a small grouping of secular growth stocks and has embraced a wider range of businesses. ASCoT's performance has been helped by this levelling of the playing field.

Sectors

The stockmarket can risk focusing too much on demand, whether at the macro level in the form of GDP growth or at the company level in terms of top line growth. The downside of such an obsession is clearly illustrated by the divergent share price performance of two sectors of the NSCI (XIC) since the start of 2012. The commodities sectors (Oil & Gas, Mining, and Industrial Metals & Mining) have fallen, in aggregate, by 27%, whereas predominantly domestic sectors (Consumer Services and Consumer Goods) have risen by 75%. A meaningful portion of that gap in relative performance can be explained by the supply side.

Commodities companies have enjoyed a decade of fantastic trading conditions, supported by the Chinese growth story. It has been easy even for small commodities businesses with no existing cash flows to raise capital in order to search for and then exploit a particular resource. Many of these investments are expected to come to fruition over the next few years, which will represent an increase in supply of commodities. This will take place against a background of lower Chinese demand growth than was expected at the outset. With supply and demand mismatched, economic theory dictates that price takes the strain, which is perhaps reflected in recent declines in commodity prices and, by extension, the share prices of commodity companies. ASCoT has a relatively low exposure to commodities, which has assisted recent relative performance.

In contrast, under the cloud of austerity, domestically oriented companies have endured testing trading conditions since the global financial crisis. However, management teams have not sat idly by but have responded to sluggish demand conditions by addressing costs and capacity. Constraints to supply have been exacerbated by the failure of numerous businesses, most obviously some formerly big high street names. The survivors have become stronger and have even enjoyed some sales growth as they have won market share from the weaker players. ASCoT has benefited from such trends, particularly through its exposure to housebuilders and retailers.

Results

Within the NSCI (XIC), your Managers track closely 281 companies, which, by value account for 97% of the index. Of these companies, 130 had December year ends and reported results in the first quarter of 2013. An analysis of these results points to a period of uninspiring trading in 2012: sales rose by 1% and EBITA (earnings before interest, tax and amortisation), with cost controls mitigating the effects of inflation, fell by 1%. Sluggish trading conditions have persisted into the current year: many company management teams are signalling a slow start to 2013 and are expecting a pick-up in the second half. Given share price performances over the first half, it would seem that the stockmarket is willing to give them the benefit of the doubt.

In cash flow terms, the analysis of the results season hints at a greater willingness on the part of company boards to utilise their cash resources. The ratio of capex to depreciation of the 130 companies was 1.7x in 2012. This was flattered by the huge investment programmes of 19 commodities companies, but was nevertheless 1.1x for the other 111 companies, which suggests that modest investment for growth is underway. There are also more indications that, if opportunities to invest and grow profitably are lacking, company boards are prepared to return cash to shareholders in the form of special dividends or share buy-backs.

Strong balance sheets

Despite such indications, the portfolio remains skewed to companies with strong balance sheets. Companies expected to have net cash at the end of 2013 accounted for 40% of the portfolio at the end of June. The equivalent number for the tracked universe is 33%. Your Managers would prefer to see these numbers come down. This is not an appeal to return to the reckless funding structures of the period immediately preceding the global financial crisis. Rather, it is a balanced judgement that reflects still uncertain trading conditions, the likelihood of continued strong cash generation that will increase cash piles, the very low level of return earned by cash in today's interest rate climate, and the plentiful opportunities available to your Managers within the NSCI (XIC).

Corporate activity

The missing piece of the equity rally has been M&A. In the first half of 2013, only three deals were completed, none of which was a member of ASCoT's portfolio. Your Managers struggle to recall a quieter start to the year, despite attractive valuations, the strong balance sheets enjoyed by companies on a global basis, and the relative weakness of sterling, which might have tempted North American buyers. The explanation probably lies in jittery confidence on the part of company boards. An upturn is inevitable – perhaps some encouragement can be taken from a recent increase in deals in the US.

While M&A has been largely absent, there has been an upsurge in IPO activity on the main market. Five listings were completed in the first half of 2013. ASCoT held one of these at 30 June. Your Managers tend to eschew IPOs, concerned about the knowledge advantage of the vendors. However, in the early stages of an IPO market, it may be possible to secure better valuations since the vendors and their bankers need to price deals more keenly. It is also helpful that your Managers were already familiar with the businesses: several of the current crop of IPOs are businesses that private equity had bought from the stockmarket in the heady days before the global financial crisis.

Dividends

The portfolio's dividend experience remained positive through the first half of 2013. Four years into the recovery from 2009, the worst year on record for small company dividends, it is inevitable that the rate of dividend growth across the investment universe should moderate. Nevertheless, as the table below demonstrates, the majority of investee companies continue to increase dividend payments.

Band	Nil	Down	Flat	Up	Other
No. of holdings	20	10	12	54	2

The impact from the cutters on ASCoT's income forecasts was limited since in most cases the dividend reduction had been anticipated. Your Managers believe that most of the companies classified in the "Nil" category are capable of moving to the dividend register over the course of the next two years. The "Other" category contains dividend paying companies with no direct comparison, such as the IPO mentioned previously.

Given the traditional prejudice that small companies are all about capital growth, their income credentials are frequently overlooked. However, the long term data argue that the heavy lifting behind small companies' superior total returns is done by yield and dividend growth. The traditional prejudice is reinforced by headline income data for the NSCI (XIC), which shows a historic yield of 2.5%, which is 28% lower than the FTSE All-Share's 3.5%.

Managers' Report

But comparison is not straightforward. Of the 383 companies in the NSCI (XIC), 106 are zero yielders. Adjusting for these, the yield of the yielders rises to 3.1%. The dividend cover of these yielders is 2.2x, somewhat higher than the FTSE All-Share's 2.0x. Moreover, small companies continue to offer a better spread of income than the heavily concentrated large cap universe. ASCoT's portfolio, whose yield and cover were 2.9% and 3.0x at the end of June, demonstrates that through active management the small company universe is fertile territory for income.

Valuations

Characteristics	30 June 2013 ASCoT	30 June 2013 NSCI (XIC)	30 June 2012 ASCoT	30 June 2012 NSCI (XIC)
Number of companies	**98**	**383**	90	413
Weighted average market capitalisation	**£566m**	**£882m**	£425m	£806m
Price earnings ratio (historic)	**11.4x**	**14.3x**	9.8x	12.8x
Dividend yield (historic)	**2.9%**	**2.5%**	3.4%	3.0%
Dividend cover	**3.0x**	**2.8x**	3.0x	2.6x

The table above summarises the income characteristics of the portfolio and the NSCI (XIC). It also shows the respective PEs, which have risen over the past twelve months, consistent with the strong returns from smaller companies. ASCoT's portfolio PE remains lower than both the index's and its long term average of 12x.

The following table focuses on your Managers' favoured valuation metric, EV/EBITA (the ratio of enterprise value to earnings before interest, tax and amortisation). As with the full year 2012 Managers' report, data are shown for the portfolio, for the tracked universe, for the growth companies monitored by your Managers within the tracked universe, and for the rest of the tracked universe. The purpose is to illustrate the "value stretch" that continues to characterise the small company universe: growth companies are valued on a 51% premium to the rest of the tracked universe. This has narrowed slightly from the 57% premium at 31 December 2012, but is still very wide in the context of Aberforth's 23 year history. The portfolio is even more modestly valued on 8.9x. The persistence of such valuation anomalies gives your Managers confidence that, notwithstanding the excellent returns from the asset class over recent months, there is ample scope for the value investor to profit from prevailing valuations.

2013 EV/EBITA ratio			
34 growth companies	*247 other companies*	*Tracked NSCI (XIC)*	*ASCoT's portfolio*
14.8x	9.8x	10.5x	8.9x

Managers' Report

Outlook

The pleasing run for equities in general and small companies in particular over the past twelve months was challenged as the half year drew to a close. Bond yields rose sharply and equity prices fell as comments from the Fed gave pause for thought about both the duration and the success of QE. Whatever the merits of unconventional monetary policies, it is unlikely that the authorities are about to give up and admit defeat; it is more likely that the absence of improved prospects for real economies will be met by incremental doses of QE. The more positive interpretation, consistent with a "great rotation", is that unconventional monetary policies are succeeding in stimulating economic activity.

Scanning the global economy, the outlook is mixed. China's growth is moderating, but Japan, under the huge incremental stimulus from Abe and Kuroda, holds more promise than it has for some time. In Europe, the periphery is working through its austerity programmes, while the core is hampered by weaker exports. The US still offers most hope as the banking system normalises and the consumer sector regains confidence. Meanwhile, the UK is in an intriguing position. Structurally, the economy continues to benefit from relative openness and competitiveness but it still faces the challenges of austerity and deleveraging. These may be mitigated by the extra discretion granted to the Bank of England under Mark Carney and, for better or worse, the Budget's Help-to-Buy scheme threatens to engender a pre election consumer rally. Recent economic data offer encouragement and through the passage of time the structural challenges are becoming less onerous.

Such top down issues can seem far removed from the world of small UK quoted companies, but it would be naïve to think that the unrelenting positive returns from the asset class over the past twelve months were due to the good work of company boards alone. It will be important to retain such a perspective if the very recent bout of nervousness continues. However, with a longer term view, it is the underlying businesses and their valuations that should determine returns for the equity investors. In this regard, the signs remain positive. Balance sheets are strong (perhaps too strong), boards have rediscovered the discipline of dividends, and executive management teams are taking the decisions necessary to make the most of subdued demand conditions. Most importantly, for your Managers, valuations for the majority of small companies remain attractive in a historic context. Moreover, the stretch in valuations between this majority and the growth companies remains wide, which should be conducive to the value investment style resuming its long term pre-eminence.

Aberforth Partners LLP
Managers

18 July 2013

Investment Portfolio

Fifty Largest Investments as at 30 June 2013

No.	Company	Valuation £'000	% of Total	Business Activity
1	CSR	28,261	3.2	Location & connectivity semiconductors
2	JD Sports Fashion	26,463	3.0	Retailing - sports goods & clothing
3	Northgate	24,911	2.8	Van rental
4	RPC Group	24,549	2.8	Plastic packaging
5	e2v technologies	22,882	2.6	Electronic components & subsystems
6	St. Modwen Properties	21,649	2.5	Property investment & development
7	Spirit Pub Company	20,907	2.4	Managed pub operator
8	Tullett Prebon	20,148	2.3	Interdealer broker
9	Galliford Try	18,628	2.1	Housebuilding & construction
10	Regus	18,532	2.1	Serviced office accommodation
	Top Ten Investments	**226,930**	**25.8**	
11	Brewin Dolphin Holdings	17,850	2.0	Private client fund manager
12	Thomas Cook Group	17,503	2.0	Tour operator
13	QinetiQ Group	16,350	1.9	R&D and consulting services
14	Huntsworth	16,080	1.8	Public relations
15	RPS Group	15,535	1.8	Energy & environmental consulting
16	Unite Group	15,367	1.7	Property - student accommodation
17	Synthomer	15,187	1.7	Speciality chemicals
18	Kofax	14,404	1.6	Document capture software
19	Phoenix IT Group	14,328	1.6	IT services & disaster recovery
20	National Express Group	14,057	1.6	Bus & rail operator
	Top Twenty Investments	**383,591**	**43.5**	
21	Micro Focus	13,940	1.6	Software - development & testing
22	Bodycote	13,670	1.6	Engineering - heat treatment
23	WH Smith	13,532	1.5	Newsagents
24	F&C Asset Management	13,409	1.5	Investment manager
25	Vectura Group	13,307	1.5	Inhaled pharmaceuticals - respiratory specialism
26	FirstGroup	12,689	1.4	Bus & rail operator
27	Castings	12,638	1.4	Engineering - automotive castings
28	Hilton Food Group	12,413	1.4	Food manufacturer
29	Speedy Hire	12,177	1.4	Plant hire
30	Hansteen Holdings	10,894	1.2	Property - industrial
	Top Thirty Investments	**512,260**	**58.0**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2013

No.	Company	Valuation £'000	% of Total	Business Activity
31	Morgan Advanced Materials	10,458	1.2	Manufacture of advanced materials
32	EnQuest	10,122	1.1	Oil & gas exploration & production
33	Shanks Group	9,116	1.0	Waste services
34	Mothercare	9,069	1.0	Retailing - maternity & children's products
35	KCOM Group	9,067	1.0	Telecommunications services
36	Jupiter Fund Management	9,032	1.0	Investment manager
37	Go-Ahead Group	9,031	1.0	Bus & rail operator
38	Microgen	8,985	1.0	Software - workflow & financial services
39	Grainger	8,884	1.0	Property - residential
40	Future	8,828	1.0	Special interest consumer publisher
	Top Forty Investments	**604,852**	**68.3**	
41	Lavendon Group	8,827	1.0	Hire of access equipment
42	Low & Bonar	8,752	1.0	Manufacture of industrial textiles
43	Halfords Group	8,600	1.0	Retailing & car servicing
44	Chemring Group	8,513	1.0	Defence products, including countermeasures
45	Playtech	8,407	1.0	Online gaming software
46	Filtronic	8,381	1.0	Microwave electronic devices
47	Safestore Holdings	8,296	0.9	Property - self storage
48	Robert Walters	8,261	0.9	Recruitment
49	Optos	8,092	0.9	Medical technology - retinal imaging
50	Smiths News	8,091	0.9	Newspaper distribution
	Top Fifty Investments	**689,072**	**77.9**	
	Other (48 companies)	253,296	29.2	
	Total Investments	**942,368**	**107.1**	
	Net Liabilities	(62,063)	(7.1)	
	Total Net Assets	**880,305**	**100.0**	

Long-Term Investment Record

Historic Total Returns

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30.6.13	36.3	31.8	44.6
1 year to 30.6.12	–8.7	–4.1	–12.6
1 year to 30.6.11	36.3	34.2	36.3
1 year to 30.6.10	18.9	28.0	15.2
1 year to 30.6.09	–16.6	–12.4	–8.5
1 year to 30.6.08	–25.6	–24.8	–26.5
1 year to 30.6.07	26.9	25.4	22.6
1 year to 30.6.06	18.4	25.9	12.8
1 year to 30.6.05	24.1	18.2	25.6
1 year to 30.6.04	32.6	32.7	27.2

Periods to 30.6.13	Annualised Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 30.6.11	11.5	12.4	12.4	24.4	26.4	26.4
3 years from 30.6.10	19.2	19.3	19.9	69.6	69.7	72.4
4 years from 30.6.09	19.2	21.4	18.7	101.6	117.2	98.6
5 years from 30.6.08	10.9	13.7	12.7	68.1	90.3	81.8
6 years from 30.6.07	3.8	6.2	4.9	25.1	43.1	33.5
7 years from 30.6.06	6.8	8.7	7.3	58.8	79.5	63.7
8 years from 30.6.05	8.2	10.7	8.0	88.0	126.0	84.6
9 years from 30.6.04	9.9	11.5	9.8	133.3	167.2	131.9
10 years from 30.6.03	12.0	13.5	11.4	209.4	254.5	195.0
15 years from 30.6.98	11.5	9.0	12.1	413.7	265.3	454.6
22.6 years from inception on 10.12.90	13.8	11.1	13.2	1,741.4	983.1	1,534.3

1 Represents Net Asset Value (Fully Diluted Net Asset Value prior to 1 April 2003) with dividends reinvested.

2 Represents capital appreciation/(depreciation) on the Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested (prior to 1 January 1997 in its "Extended" version).

3 Represents Ordinary Share price with dividends reinvested.

Interim Management Report

Risks and Uncertainties

A review of the half year and the outlook for the Company can be found in the Chairman's Statement and the Managers' Report. The Directors have established an ongoing process for identifying, evaluating and managing the key risks faced by the Company. The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a simple capital structure; invests only in small UK quoted companies; has never been exposed to derivatives and does not presently intend any such exposure; and outsources all the main operational activities to recognised, well established firms.

As the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, interest rate, credit and liquidity risk. Additional risks faced by the Company relate to investment objective, investment policy, share price discount, regulatory, operational/financial risk and gearing risk. An explanation of these risks and how they are managed can be found in the Directors' Report contained within the 2012 Annual Report.

These principal risks and uncertainties have not changed from those disclosed in the 2012 Annual Report.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

(i) the condensed set of financial statements has been prepared in accordance with the Statement `Half-yearly financial reports' issued by the Financial Reporting Council; and

(ii) the half-yearly report includes a fair review of information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events during the first six months of the year and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being disclosure of related party transactions and changes therein.

On behalf of the Board

Prof. Paul Marsh
Chairman

18 July 2013

Income Statement

(unaudited)

For the six months ended 30 June 2013

	Six months ended 30 June 2013		
	Revenue £'000	Capital £'000	Total £'000
Realised net gains/(losses) on sales	–	57,985	57,985
Movement in fair value	–	59,357	59,357
Net gains on investments	–	117,342	117,342
Dividend income	16,378	–	16,378
Other income	–	–	–
Investment management fee (Note 2)	(1,220)	(2,034)	(3,254)
Transaction costs	–	(1,856)	(1,856)
Other expenses	(235)	–	(235)
Net return before finance costs and tax	14,923	113,452	128,375
Finance costs	(250)	(416)	(666)
Net return on ordinary activities before tax	14,673	113,036	127,709
Tax on ordinary activities	–	–	–
Return attributable to equity shareholders	14,673	113,036	127,709
Returns per Ordinary Share (Note 4)	15.35p	118.26p	133.61p

Dividends

On 18 July 2013, the Board declared a first interim dividend for the year ending 31 December 2013 of 7.35p per Ordinary Share (2012 – 7.00p) which will be paid on 22 August 2013.

Income Statement

Six months ended 30 June 2012			Year ended 31 December 2012		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	(37,221)	(37,221)	–	(19,697)	(19,697)
–	104,931	104,931	–	189,234	189,234
–	67,710	67,710	–	169,537	169,537
15,291	–	15,291	28,065	–	28,065
–	–	–	1	–	1
(1,000)	(1,667)	(2,667)	(2,057)	(3,428)	(5,485)
–	(1,083)	(1,083)	–	(2,035)	(2,035)
(228)	–	(228)	(443)	–	(443)
14,063	64,960	79,023	25,566	164,074	189,640
(284)	(473)	(757)	(540)	(899)	(1,439)
13,779	64,487	78,266	25,026	163,175	188,201
(18)	–	(18)	(18)	–	(18)
13,761	64,487	78,248	25,008	163,175	188,183
14.34p	67.18p	81.52p	26.07p	170.13p	196.20p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2013

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2012	**957**	**31**	**179,461**	**542,451**	**45,279**	**768,179**
Return on ordinary activities after tax	–	–	–	113,036	14,673	127,709
Equity dividends paid	–	–	–	–	(14,584)	(14,584)
Purchase of Ordinary Shares	(1)	1	(999)	–	–	(999)
Balance as at 30 June 2013	**956**	**32**	**178,462**	**655,487**	**45,368**	**880,305**

For the six months ended 30 June 2012

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2011	961	27	182,103	379,276	40,724	603,091
Return on ordinary activities after tax	–	–	–	64,487	13,761	78,248
Equity dividends paid	–	–	–	–	(13,748)	(13,748)
Purchase of Ordinary Shares	(2)	2	(1,469)	–	–	(1,469)
Balance as at 30 June 2012	959	29	180,634	443,763	40,737	666,122

For the year ended 31 December 2012

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2011	961	27	182,103	379,276	40,724	603,091
Return on ordinary activities after tax	–	–	–	163,175	25,008	188,183
Equity dividends paid	–	–	–	–	(20,453)	(20,453)
Purchase of Ordinary Shares	(4)	4	(2,642)	–	–	(2,642)
Balance as at 31 December 2012	957	31	179,461	542,451	45,279	768,179

Balance Sheet

(unaudited)

As at 30 June 2013

	30 June 2013 £'000	31 December 2012 £'000	30 June 2012 £'000
Fixed assets: investments at fair value through profit or loss	**942,368**	813,326	724,957
Current assets			
Amounts due from brokers	**2,602**	–	1,254
Other debtors	**4,644**	1,857	3,777
Cash at bank	**172**	259	92
	7,418	2,116	5,123
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(18,901)**	(444)	(3,988)
Bank debt facility	**(50,461)**	–	–
Other creditors	**(119)**	(133)	(310)
	(69,481)	(577)	(4,298)
Net current (liabilities)/assets	**(62,063)**	1,539	825
Total assets less current liabilities	**880,305**	814,865	725,782
Creditors (amounts falling due after more than one year)			
Bank debt facility	**–**	(46,686)	(59,660)
Total net assets	**880,305**	768,179	666,122
Capital and reserves: equity interests			
Called up share capital:			
Ordinary Shares	**956**	957	959
Reserves:			
Capital redemption reserve	**32**	31	29
Special reserve	**178,462**	179,461	180,634
Capital reserve	**655,487**	542,451	443,763
Revenue reserve	**45,368**	45,279	40,737
Total shareholders' funds	**880,305**	768,179	666,122
Net asset value per share (Note 5)	**921.23p**	802.76p	694.69p
Share price	**811.50p**	695.50p	579.50p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2013

	Six months ended 30 June 2013 £'000	Six months ended 30 June 2012 £'000	Year ended 31 December 2012 £'000
Net cash inflow from operating activities	**10,093**	11,150	22,708
Taxation			
Taxation recovered (net)	–	9	9
Returns on investments and servicing of finance	**(646)**	(742)	(1,394)
Capital expenditure and financial investment			
Payments to acquire investments	**(182,728)**	(100,346)	(200,491)
Receipts from sales of investments	**185,027**	113,516	223,997
Net cash inflow from capital expenditure and financial investment	**2,299**	13,170	23,506
	11,746	23,587	44,829
Equity dividends paid	**(14,584)**	(13,748)	(20,453)
	(2,838)	9,839	24,376
Financing			
Purchase of Ordinary Shares	**(999)**	(1,648)	(3,018)
Net drawdown/(repayment) of bank debt facilities (before costs)	**3,750**	(8,250)	(21,250)
Change in cash during the period	**(87)**	(59)	108
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation	**128,375**	79,023	189,640
Gains on investments	**(117,342)**	(67,710)	(169,537)
Scrip dividends received	**–**	–	(120)
Transaction costs	**1,856**	1,083	2,035
(Increase)/decrease in debtors	**(2,787)**	(1,226)	694
Decrease in creditors	**(9)**	(20)	(4)
Net cash inflow from operating activities	**10,093**	11,150	22,708

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been prepared on a going concern basis and in accordance with UK generally accepted accounting practice ("UK GAAP") and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2009. The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period.

The same accounting policies used for the year ended 31 December 2012 have been applied.

2. Investment Management Fee

	Revenue £'000	Capital £'000	Total £'000
For the six months ended 30 June 2013	**1,220**	**2,034**	**3,254**
For the six months ended 30 June 2012	1,000	1,667	2,667
For the year ended 31 December 2012	2,057	3,428	5,485

The Managers, Aberforth Partners LLP, were previously paid a management fee, quarterly in advance, equal to 0.2% of the net assets of the Company. On 18 July 2013, it was agreed to amend the basis of the quarterly fee, backdated to 1 January 2013, to:

(i) 0.2% of the net assets of the Company up to £800m; plus

(ii) 0.175% of the net assets of the Company between £800m and £1 billion (if any); plus

(iii) 0.15% of the net assets of the Company greater than £1 billion (if any).

3. Dividends

	Six months ended 30 June 2013 £'000	Six months ended 30 June 2012 £'000	Year ended 31 December 2012 £'000
Amounts recognised as distributions to equity holders in the period:			
Second interim dividend of 14.3p for the year ended 31 December 2011	–	13,748	13,748
First interim dividend of 7.00p for the year ended 31 December 2012	–	–	6,705
Second interim dividend of 15.25p for the year ended 31 December 2012	**14,584**	–	–
	14,584	13,748	20,453

The first interim dividend for the year ending 31 December 2013 of 7.35p (2012 – 7.00p) will be paid on 22 August 2013 to shareholders on the register on 2 August 2013. The ex-dividend date is 31 July 2013.

Notes to the Financial Statements

4. Returns per Ordinary Share

The returns per Ordinary Share are based on:

	Six months ended 30 June 2013 £'000	Six months ended 30 June 2012 £'000	Year ended 31 December 2012 £'000
Weighted average number of shares in issue during the period	**95,579,173**	95,992,743	95,911,500

5. Net Asset Values

The net assets and the net asset value per share attributable to the Ordinary Shares at each period end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	30 June 2013 £'000	31 December 2012 £'000	30 June 2012 £'000
Net assets attributable	**880,305**	768,179	666,122

	Pence	Pence	Pence
Net asset value attributable per Ordinary Share	**921.23**	802.76	694.69

As at 30 June 2013, the Company had 95,557,792 Ordinary Shares in issue (31 December 2012 – 95,692,792 and 30 June 2012 – 95,887,792).

6. Further Information

The foregoing do not constitute statutory accounts (as defined in section 434(3) of the Companies Act 2006) of the Company. The statutory accounts for the year ended 31 December 2012, which contained an unqualified Report of the Auditors, have been lodged with the Registrar of Companies and did not contain a statement required under section 498(2) or (3) of the Companies Act 2006. All information shown for the six months to 30 June 2013 is unaudited.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

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