



# abrdn UK Smaller Companies Growth Trust plc

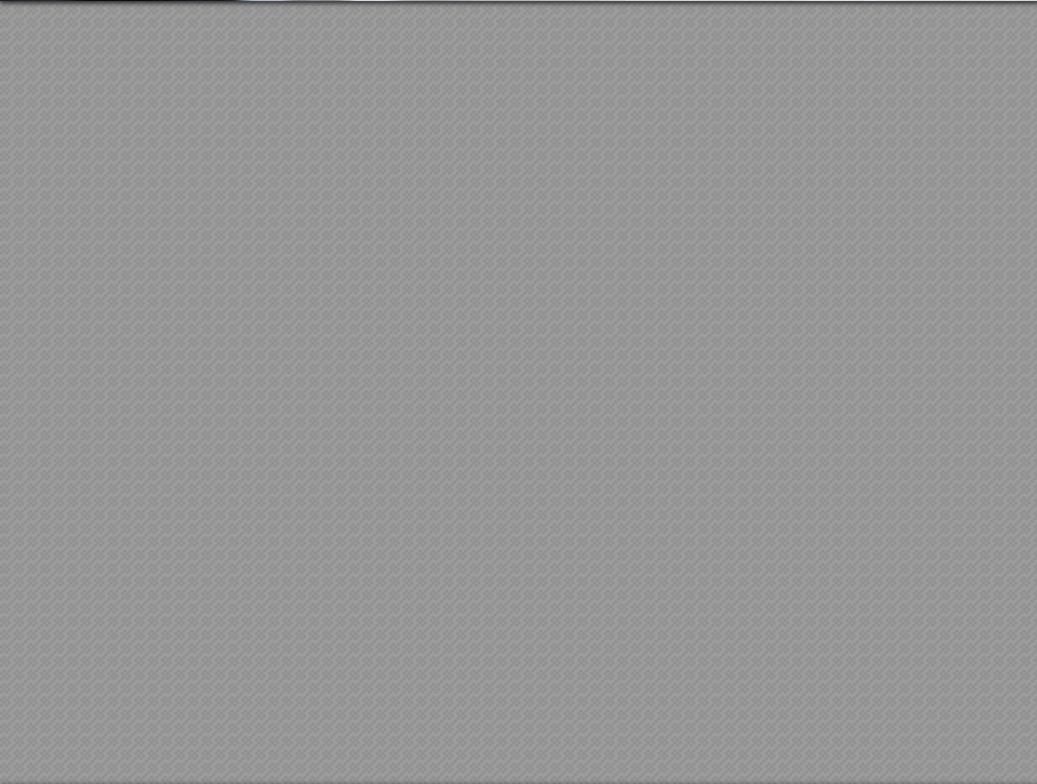
Annual Report 30 June 2023

Capturing the growth potential of UK smaller companies

[abrdnuksmallercompaniesgrowthtrust.co.uk](https://abrdnuksmallercompaniesgrowthtrust.co.uk)



Investments in the  
Leisure Goods  
sector included  
Games Workshop.





"For the year ended 30 June 2023, the Company's NAV total return was -7.4%. The share price total return was -6.8%. By contrast, the total return of the Company's reference index was -2.8%."

Liz Airey, Chairman



"During the year under review, markets were volatile and top down driven, with the dominating narrative one of persistent inflation and higher interest rates. Whilst the portfolio holdings have been delivering well fundamentally, that has often not been reflected in share prices."

Abby Glennie and Amanda Yeaman,  
abrdn

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email alerts relating to the Company:



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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all your Ordinary shares in abrdn UK Smaller Companies Growth Trust plc, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

To find out more about abrdn UK Smaller Companies Growth Trust plc, please visit:  
[abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk)

# Performance Highlights and Financial Calendar

Net asset total return<sup>AB</sup>

**-7.4%**

2022 -27.3%

Share price total return<sup>AB</sup>

**-6.8%**

2022 -34.3%

Total dividends per share

**11.00p**

2022 8.10p

Discount to net asset value<sup>AB</sup>

**14.3%**

2022 14.6%

Revenue return per share

**12.44p**

2022 9.07p

Ongoing charges ratio<sup>ABC</sup>

**0.95%**

2022 0.82%

<sup>A</sup> Considered to be an Alternative Performance Measure. See pages 100 to 102 for more information.

<sup>B</sup> A Key Performance Indicator ("KPI"). See page 13 for more information on the Company's KPIs.

<sup>C</sup> Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

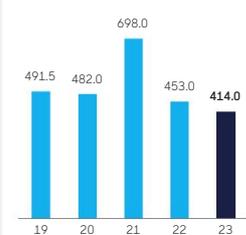
Net asset value per share

At 30 June - pence



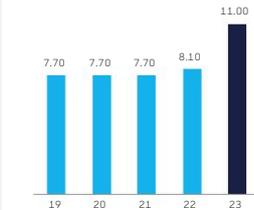
Share price

At 30 June - pence



Dividends per share

Year ended 30 June - pence



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# Performance Highlights and Financial Calendar

Continued

## Financial Calendar

Annual General Meeting (London)	<b>23 November 2023</b>
Payment of final dividend for year ending 30 June 2023	<b>30 November 2023</b>
Half year end	<b>31 December 2023</b>
Expected announcement of results for the six months ending 31 December 2023	<b>February 2024</b>
Payment of interim dividend for year ending 30 June 2024	<b>April 2024</b>
Financial year end	<b>30 June 2024</b>
Expected announcement of results for year ending 30 June 2024	<b>September 2024</b>

## Financial Highlights

	30 June 2023	30 June 2022	% change
<b>Capital return</b>			
Total assets (as defined on page 109)	£451.5m	£538.6m	(16.2%)
Equity shareholders' funds	£426.6m	£498.6m	(14.4%)
Market capitalisation <sup>A</sup>	£365.7m	£425.9m	(14.1%)
Net asset value per share (as defined on page 108)	482.95p	530.37p	(8.9%)
Share price	414.00p	453.00p	(8.6%)
Discount to NAV <sup>B</sup>	14.3%	14.6%	
Net gearing <sup>B</sup>	2.5%	5.1%	
Reference index <sup>C</sup>	5,199.92	5,520.20	(5.8%)
<b>Dividends and earnings</b>			
Revenue return per share <sup>D</sup>	12.44p	9.07p	37.2%
Total dividends per share <sup>E</sup>	11.00p	8.10p	35.8%
<b>Operating costs</b>			
Ongoing charges ratio <sup>BF</sup>	0.95%	0.82%	

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

<sup>B</sup> Considered to be an Alternative Performance Measure, as defined on pages 100 and 101.

<sup>C</sup> Nums Smaller Companies plus AIM (ex investment companies) Index.

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

<sup>E</sup> The figures for dividend per share reflect the years in which they were earned (see note 8 on page 89).

<sup>F</sup> Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

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# Strategic Report



Investments in the Electronics and Technology Hardware Equipment sectors include XP Power and discoverIE.

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

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

# Chairman's Statement

## Performance

I am disappointed to be reporting to shareholders that in the year just ended, the Company has extended its period of underperformance against its benchmark on both a net asset value ("NAV") and share price basis. We are very aware that the effect of this underperformance, over one, three and five years, is that anyone who made their initial investment in the Company in the last five years will most likely have seen a reduction in the value of their investment. This is clearly an uncomfortable position for shareholders, and also for those of us who are responsible for the portfolio and the Company.

For the year ended 30 June 2023, the Company's NAV total return, calculated on the basis that all dividends received are reinvested in additional shares, was -7.4%. The share price total return, calculated on the same basis, was -6.8%. By contrast, the total return of the Company's reference index, the Numis Smaller Companies plus AIM (ex investment companies) Index (the "reference index"), was -2.8%.

The Board and the Manager have discussed the investment strategy at length over the past couple of years but this year, in addition, your Board has spent a lot of time considering the root causes of the underperformance in order to be confident that the Company's investment thesis remains intact. It also carried out a detailed review to assess whether the investment process itself is being robustly implemented.

As a consequence of these reviews, the Board is able to support the Manager's view that the drivers of current underperformance are primarily a confluence of external events. These conditions reflect the weak UK economy, rising inflation and the sequential increases in interest rates we are experiencing as well as the political turbulence. These have created a difficult macro environment for investing in small companies generally, but particularly for the Manager's investment style, which focuses on Quality, Growth and Momentum factors - and we believe does so to a greater extent than any of the peer group companies in the sector. Whereas this favours the performance of the Company in growth oriented markets, it creates very challenging conditions in the market conditions we have seen, which have resulted in periods of rotation and a continual de-rating of the highly rated growth companies which typify our portfolio.

The chart below illustrates how the Company's share price has performed against the reference index over the past five years. Gearing does play a small part in this, but the key characteristic is that the Company invests in growth companies.



Source: Refinitiv Datastream. Returns rebased to 100 as at 30 June 2018.

Detailed commentary on markets and performance for the year is contained in the Investment Manager's Review on pages 26 to 32.

## Earnings and Dividends

The revenue return per share ("EPS") for the year ended 30 June 2023 was 12.44p (2022: 9.07p). The increase of 37.2% builds on the 41% increase in 2022 and has come from both an increase in the ordinary dividends received, special dividends of £942,000 (7.2% of investment income), and a material increase in interest income, as for the first time since 2008 cash balances are delivering a return. Included in the EPS is the enhancement to earnings of 0.34p per share (2.8%) as a result of share buy backs undertaken during the year.

The Board is pleased to announce that this significant increase in EPS is flowing through to a substantial increase in dividends for shareholders and it is declaring a final dividend of 8.00p per share. Together with the interim dividend of 3.00p per share already paid, the total distribution for the financial year will be 11.00p per share, representing a 35.8% increase on the 8.10p per share paid last year. This still permits a proportion of earnings to be transferred to revenue reserves which will help your Company to withstand any future downturn such as we witnessed in 2020/21 or, indeed, simply manage any reduction in dividend receipts in future as income receipts from smaller companies are generally more variable than those of larger companies.

**"The Board is pleased to declare a final dividend of 8.00p per share, which will mean that the total distribution for the financial year will be 11.00p per share, representing a 35.8% increase on the 8.10p per share paid last year. "**

Following the payment of the final dividend, an amount of approximately 2.0p per share will be transferred to revenue reserves.

Subject to approval by shareholders at the Annual General Meeting ("AGM"), the final dividend will be paid on 30 November 2023 to shareholders on the register on 3 November 2023, with an associated ex-dividend date of 2 November 2023.

## Management Fee and Company

### Secretarial Fee

The Board continually reviews the management fee structure and, during the year, considered that the existing structure of fees paid to the Manager made the Company insufficiently competitive relative to its closest peers.

Accordingly, the Board has negotiated a lower fee structure with the Manager. With effect from 1 July 2023 fees will be 0.75% per annum (previously 0.85%) on the first £175 million (previously £250 million) of net assets, 0.65% per annum (unchanged) on net assets between this amount and £550 million (unchanged), and 0.55% per annum (unchanged) on net assets above £550 million (unchanged). In addition, from 1 January 2024 the Manager will no longer charge for the provision of company secretarial services, saving the Company a further £75,000 (+ VAT) per annum. On a pro-forma basis, based on the NAV at 30 June 2023, the change would represent a saving in a full year of around £415,000, or approximately 12% of management fee costs. The Board considers that this makes the fee structure more competitive when compared to the other similar investment trusts in the sector.

### Ongoing Charges

The ongoing charges ratio ("OCR") for the year ended 30 June 2023 was 0.95% (2022: 0.82%). As I highlighted last year, we expected that the OCR would increase this year with a fall in the NAV. In addition, the promotional fee, which is set annually, was based on a higher NAV. We expect that the OCR in the coming year will be lower, partly because of the reduction to the fees referred to above and partly because the promotional fee will be lower. There will be a further diminution of cost to come following the Manager's recent decision to discontinue its Share Plan with effect from the end of the year, as your Company currently contributes to the marketing and administration of this Plan which accounts for some 7% of our shareholder base.

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# Chairman's Statement

## Continued

### Discount Control and Share Buy Backs

At the year end the discount of the share price to the cum income NAV was 14.3% (2022: 14.6%).

Over the year, the Company bought back almost 5.7 million shares, equating to 6.0% of its issued share capital, at a total cost of £25.8 million and a weighted average price of 449.7p per share. The weighted average discount at which the shares were repurchased was 12.8%. The Board calculates that this has added 4.0p per share to the NAV for remaining shareholders.

The Company has been more active in buying back shares in the last 12 months than in any previous year since it last undertook a tender offer in 2015, buying back shares on over 180 days last year. The increased activity has been caused by the level of the discount, which has been wider than the 8% target that the Board is committed to in the long term in normal market conditions.

Given the backdrop has continued to be unfavourable for the UK smaller companies sector as a whole, evidenced by outflows in the open ended sector, it is to be expected that we would see the discount widen as it has across most of our peer group. Whilst the Board takes sector levels into account when implementing its discount control mechanism, it remains committed to its long term target of 8% and will continue to be active in the market when it believes it to be in the best interests of shareholders.

Full details of the Board's discount control policy can be found on page 18 and a five-year chart of the movement in the discount compared to the peer group and the discount control mechanism threshold can be found on page 25.

### Gearing

The Board has given the Investment Manager discretion to vary the level of gearing between 5% net cash and 25% net gearing (at the time of drawdown). On 1 November 2022 the Company renewed its loan facility with the Royal Bank of Scotland International, giving it access to a £40 million revolving credit facility ("RCF"), £25 million of which was drawn down at the year end. The gross level of borrowings was offset by cash and money market funds of £14.4 million resulting in net gearing at 30 June 2023 of 2.5% (2022: 5.1%).

### The Board

After seven years as a Director, Caroline Ramsay has informed the Board that she does not intend to stand for re-election at the Company's AGM in November. Consequently, the Board undertook a search to find a replacement and appointed Manju Malhotra, who joined the Board on 1 May 2023. Manju is a Chartered Accountant and it is intended that she will assume the role of Chair of Audit Committee at the completion of the AGM. On behalf of the Board, I would like to thank Caroline for her contribution over the last few years and we wish her well for the future, and to welcome Manju to the Board. Manju's biographical details are included on page 49 and she will stand for election at the AGM. This period has also seen the completion in May of the one year term of the Company's first Board Apprentice, Jessica Norell Neeson. We thank Jessica for her pertinent contributions to our discussions and wish her well in the next stage of her career path.

### Annual General Meeting

The Company's AGM will be held at 12 noon on Thursday 23 November 2023 at Wallacespace Spitalfields, 15 Artillery Lane, London E1 7HA. The meeting will include a presentation from the Investment Manager and will be followed by a buffet lunch. This is a good opportunity for shareholders to meet the Board and Manager and we would encourage you to attend. The Notice of the Meeting is contained on pages 116 to 121.

**"The Company's AGM will be held at 12 noon on Thursday 23 November 2023 at Wallacespace Spitalfields, 15 Artillery Lane, London E1 7HA."**

Shareholders will be able to submit questions in advance of the AGM at the following email address: [abrdnuksmallercompaniesgrowthtrust@abrdn.com](mailto:abrdnuksmallercompaniesgrowthtrust@abrdn.com). Should you be unable to attend the AGM, the Investment Manager's presentation will be made available on the Company's website shortly after the meeting. The results of the AGM will also be published on the website.

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

### Outlook

The economic challenges that existed during the year seem set to continue through the current financial year. Although starting to fall, inflation remains high and interest rates have increased since the year end, with further increases expected. This will likely prove again to be a difficult backdrop for investing in smaller UK companies.

**“The Investment Manager has seen positive signs across the portfolio, with a strong reporting season and earnings upgrades for some of our core positions, even though significant economic challenges remain.”**

The Board considers the Investment Manager’s process to be tried and tested and it has yielded good results over the past two decades – as can be seen from the chart on page 24 – albeit interspersed with periods of underperformance at times of market turbulence such as this. Predicting when these challenging market conditions will change is very difficult and we must acknowledge the possibility that they may continue for longer than they have in the past two decades. We must accept that much of this period was characterised by unprecedented low interest rates and loose monetary conditions which is no longer the case.

Notwithstanding this uncertainty, company quality and growth factors should ultimately prove themselves in such an environment, through resilience and earnings delivery. Share price valuations of companies with these characteristics remain very attractive in historic terms, and the Investment Manager believes that this presents a significant opportunity to investors. The Investment Manager has seen positive signs across the portfolio, with a strong reporting season and earnings upgrades for some of our core positions, even though significant economic challenges remain. If continued, over time this should lead to an improvement in investor sentiment to UK equities and the small and mid-cap sector in particular. In summary, the Board continues to believe that there are opportunities for your Company to achieve superior returns over the economic cycle.



**Liz Airey**  
Chairman  
24 August 2023

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# Overview of Strategy

## Business

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

## Investment Objective

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

## Investment Policy

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK-quoted smaller companies. The portfolio will normally comprise between 50-60 holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

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

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

## Board Investment Limits

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

- Companies with a market capitalisation of below £50 million should not represent more than 5% of total assets.
- Companies involved in "Blue Sky" products (see definition on page 108) should not represent more than 5% of total assets.
- No more than 50% of the portfolio should be invested in companies that are constituents of the FTSE AIM All-Share Index.

## Investment Process

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

Further information on the investment process is contained on pages 33 to 35.

## Reference Index

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

## Delivering the Investment Objective

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

## Promoting the Success of the Company

The Board's statement on pages 20 to 23 describes how the Directors have discharged their duties and responsibilities over the course of the financial year under section 172 (1) of the Companies Act 2006 and how they have promoted the success of the Company for the benefit of the members as a whole.

The Board believes that the success of the Company is best served through the measurement of Key Performance Indicators ("KPIs"), details of which are included below.

### Key Performance Indicators ("KPIs")

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

KPI	Description
Net asset value ("NAV") total return performance	<p>The Board measures the Company's NAV total return performance against the total return of the reference index (the Numis Smaller Companies plus AIM (ex investment companies) Index) and its peer group of investment trusts.</p> <p>The figures for this year and for the past three, five and ten years are shown in the table on page 24.</p>
Share price total return performance	<p>The Board measures the Company's share price total return performance against the total return of the reference index and its peer group of investment trusts.</p> <p>The figures for this year and for the past three, five and ten years are shown in the table on page 24.</p>
Discount/premium to NAV	<p>The Board compares the discount or premium of the Ordinary share price to the NAV per share to the discount of the peer group and also to the threshold of the Company's discount target on a rolling 12 month basis.</p> <p>A summary of the discount for the past ten years is included in the table in page 25. A chart showing the discount over five years for the Company and the peer group, measured against the discount target level, is shown in page 25. The average discount for the year as a whole was 12.9%.</p>
Ongoing charges	<p>The Board monitors the Company's ongoing charges ratio against prior years and other similar sized companies in the peer group.</p> <p>A summary of the ongoing charges ratio ("OCR") for the past ten years is included in the table in page 25. The OCR for the year ended 30 June 2023 was 0.95%, including look-through costs. The Chairman's Statement on page 9 contains details of changes to the management fee arrangements since the end of the year.</p>

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# Overview of Strategy

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## Principal and Emerging Risks and Uncertainties

The Board carries out a regular review of the risk environment in which the Company operates, changes to the environment and individual risks. The Board also considers emerging risks which might affect the Company. During the year, the most significant risks were, political instability, inflation and increasing interest rates and the resultant volatility that this has created in global stock markets. In addition, the conflict in Ukraine has continued to create geo-political uncertainty which has further increased market risk and volatility.

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

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

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

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

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

Risk	Trend	Mitigating Action
<b>Strategy</b> - the Company's objectives or the investment trust sector as a whole become unattractive to investors, leading to a fall in demand for the Company's shares.		Through regular updates from the Manager, the Board monitors the discount/ premium at which the Company's shares trade relative to the NAV. It also holds an annual strategy meeting and receives feedback from the Company's Stockbroker and shareholders and updates from the Manager's investor relations team at Board meetings.
<b>Investment performance</b> - the appointment or continuing appointment of an investment manager with inadequate resources, skills or experience, the investment style or process being out of favour, or the adoption of inappropriate strategies in pursuit of the Company's objectives, could result in poor investment performance, a loss of value for shareholders and a widening discount.		<p>The Board meets the Manager on a regular basis and keeps investment performance under close review. Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Manager is carried out by the Management Engagement Committee on an annual basis.</p> <p>The Board sets and monitors the investment restrictions and guidelines and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process, ESG matters, risk management and application of the investment guidelines.</p>

Risk	Trend	Mitigating Action
<p><b>Key person risk</b> - a change in the key personnel involved in the investment management of the portfolio could impact on future investment performance and lead to loss of investor confidence.</p>		<p>The Board discusses key person risk and succession planning with the Manager and Investment Manager on a regular basis.</p> <p>The Investment Manager employs a standardised investment process for the management of the portfolio. The well-resourced smaller companies team has grown in size over a number of years. These factors mitigate against the impact of the departure of any one member of the investment team.</p> <p>Biographies of the team members involved with the management of the Company's portfolio are included on page 105.</p>
<p><b>Share price</b> - failure to manage the discount effectively or an inappropriate marketing strategy could lead to a fall in the share price relative to the NAV per share.</p>		<p>The Company operates a discount control mechanism and aims to maintain a discount level of less than 8% to the cum-income NAV under normal market conditions. Details of the discount control mechanism are contained on page 18. The Directors undertake a programme of inviting major shareholders to discuss issues of governance or strategy with the Chairman or Senior Independent Director. In addition, the Company participates in the Manager's investment trust promotional programme where the Manager has an annual programme of meetings with institutional shareholders and reports back to the Board on these meetings.</p>
<p><b>Financial instruments</b> - insufficient oversight or controls over financial risks, including market price risk, liquidity risk and credit risk could result in losses to the Company.</p>		<p>As stated above, the Board sets investment guidelines and restrictions which are reviewed regularly and the Manager reports on compliance with them at Board meetings.</p> <p>Further details of the Company's financial instruments and risk management are included in note 16 to the financial statements.</p>
<p><b>Financial obligations</b> - inadequate controls over financial record keeping and forecasting, the setting of an inappropriate gearing strategy or the breaching of loan covenants could result in the Company being unable to meet its financial obligations, losses to the Company and impact its ability to continue trading as a going concern.</p>		<p>At each Board meeting, the Board reviews management accounts and receives a report from the Administrator, detailing any breaches during the period under review. The Board sets gearing limits and monitors the level of gearing and compliance with the main financial covenants at Board meetings.</p> <p>The Audit Committee meets representatives from the Manager's Compliance and Internal Audit teams on at least an annual basis and discusses any findings and recommendations relevant to the Company.</p>
<p><b>Regulatory</b> - failure to comply with relevant laws and regulations could result in fines, loss of reputation and potential loss of investment trust status.</p>		<p>The Board receives updates on relevant changes in regulation from the Manager, industry bodies and external advisers and the Board and Audit Committee monitor compliance with regulations by review of checklists and internal control reports from the Manager. Directors keep up to date in a variety of ways, including attendance at training courses and seminars.</p>

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Risk	Trend	Mitigating Action
<b>Operational</b> - the Company is dependent on third parties for the provision of all systems and services (in particular those of the Manager and the Depositary) and any control failures and gaps in their systems and services could result in a loss or damage to the Company.		<p>The Audit Committee reviews reports from the Manager on its internal controls and risk management (including an annual ISAE Report) and considers assurances from all its other significant service providers on at least an annual basis, including on matters relating to business continuity and cyber security. The Audit Committee meets representatives from the Manager's Compliance and Internal Audit teams on at least an annual basis and discusses any findings and recommendations relevant to the Company. Written agreements are in place with all third party service providers.</p> <p>The Manager monitors closely the control environments and quality of services provided by third parties, including those of the Depositary, through service level agreements, regular meetings and key performance indicators, and provides periodic updates to the Board on this work.</p> <p>A formal appraisal of the Company's main third party service providers is carried out by the Management Engagement Committee on an annual basis.</p>
<b>Geopolitical</b> - the effects of geopolitical instability or change could have an adverse impact on stock markets and the value of the Company's investment portfolio.		<p>Current geopolitical risks include the actions taken by governments in relation to climate change, the conflict in Ukraine and the impact of increased inflation and interest rates. The Investment Manager's focus on quality companies, the diversified nature of the portfolio and a managed level of gearing all serve to provide a degree of protection in times of market volatility.</p>

Strategy risk is heightened due to a continued unfavourable backdrop for the UK smaller companies sector as a whole,

Investment Performance risk is heightened due to the performance of the Company relative to the reference index for the year, and the impact of this on the 1, 3 and 5 year performance record as set out on page 24.

## Promotional Activities

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the rating of the Company's shares. The Board believes one effective way to achieve this is through subscription to, and participation in, the promotional programme run by the Manager on behalf of a number of investment trusts under its management. The Company also supports the Manager's investor relations programme which involves regional roadshows, promotional and public relations campaigns. The Manager's promotional and investor relations teams report to the Board on a quarterly basis giving analysis of the promotional activities as well as updates on the shareholder register and any changes in the make-up of that register.

The purpose of the promotional and investor relations programmes is both to communicate effectively with existing shareholders and to gain new shareholders, with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key. The promotional programme includes commissioning independent paid for research on the Company, most recently from Edison Investment Research Limited. A copy of the latest research note is available from the Company's website.

The cost to the Company of participating in these programmes is matched by the Manager through the provision of the necessary resources to carry out the marketing and promotional activities.

## Employees and Human Rights

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

## Modern Slavery Act

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

## Environmental, Social and Governance ("ESG") Matters

The Investment Manager's approach to ESG matters is included on page 35. The Board supports the Investment Manager's approach to ESG considerations which are fully embedded into the investment process.

## The UK Stewardship Code and Proxy Voting

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

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

## Global Greenhouse Gas Emissions

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

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# Overview of Strategy

## Continued

### Task Force for Climate-Related financial Disclosures ("TCFD")

Under Listing Rule 15.4.29(R), the Company, as a closed ended investment company, is exempt from complying with the Task Force on Climate-related Financial Disclosures ("TCFD").

Whilst TCFD is currently not applicable to the Company, the Manager has produced a product level report on the Company in accordance with the FCA's rules and guidance regarding the disclosure of climate-related financial information consistent with TCFD Recommendations and Recommended Disclosures. These disclosures are intended to help meet the information needs of market participants, including institutional clients and consumers of financial products, in relation to the climate-related impact and risks of the Manager's TCFD in-scope business. The product level report on the Company is available on the Manager's website at: [invtrusts.co.uk](http://invtrusts.co.uk).

### Discount Control Policy

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

The Board considers that, given the backdrop has continued to be unfavourable for the UK smaller companies sector as a whole, evidenced by outflows in the open ended sector, it is to be expected that the Company's discount would widen as it has across most of the peer group. Whilst the Board takes sector levels into account when implementing its discount control mechanism, it remains committed to its long term target of 8% and will continue to be active in the market when it believes it to be in the best interests of shareholders.

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

### Viability Statement

The Board considers that the Company, which does not have a fixed life, is a long-term investment vehicle and, for the purposes of this statement, has decided that five years is an appropriate period over which to consider its viability. The Board considers that this period reflects a balance between looking out over a long-term horizon and the inherent uncertainties of looking out further than five years.

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

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

- The principal risks and uncertainties detailed on pages 14 to 16 and the steps taken to mitigate these risks, together with the emerging risks identified by the Board.
- The Company is invested in listed securities that are readily-realizable in normal market conditions and there is a spread of investments held.
- The Company is closed ended in nature and therefore it is not required to sell investments when shareholders wish to sell their shares.
- The Company's long-term performance record as shown on page 24.

- The Company's level of gearing. The Company had net gearing of 2.5% as at 30 June 2023. The Company has a £40 million unsecured loan facility agreement with The Royal Bank of Scotland International Limited which expires on 1 November 2025. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants. The Board has also performed stress testing and liquidity analysis. In the event that the facility is not refinanced, there is considered to be sufficient portfolio liquidity to enable borrowings to be repaid.
- The Company has cash and money market funds which at 30 June 2023 amounted to £1.4 million. These balances allow the Company to meet liabilities as they fall due.
- The level of ongoing charges (the Chairman's Statement on page 9 contains details of changes to the management fee arrangements since the end of the year).
- There are no capital commitments currently foreseen that would alter the Board's view.
- The robustness of the operations of the Company's third party service suppliers.

The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Statement of Financial Position as at 30 June 2023 which shows net current liabilities of £11.8 million at that date, and do not consider this to be a concern due to the liquidity of the portfolio which would enable the Company to meet any short term liabilities if required.

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

In making its assessment, the Board is also aware that there are other matters that could have an impact on the Company's prospects or viability in the future, including the conflict in Ukraine, economic shocks or significant stock market volatility caused by other factors, and changes in regulation or investor sentiment.

### Future Strategy

The Board intends to maintain the strategic direction set out in the Strategic Report for the year ending 30 June 2024 as it believes that this is in the best interests of shareholders.

#### On behalf of the Board

**Liz Airey**

Chairman

24 August 2023

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# Promoting the Success of the Company

## Introduction

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

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

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

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

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

The Board's philosophy is that the Company should operate in a transparent culture where all parties are treated with respect and provided with the opportunity to offer practical challenge and participate in positive debate which is focused on the aim of achieving the expectations of shareholders and other stakeholders alike.

The Board reviews the culture and manner in which the Manager and Investment Manager operate at its meetings and receives regular reporting and feedback from the other key service providers. The Board is very conscious of the ways it promotes the Company's culture and ensures as part of its regular oversight that the integrity of the Company's affairs is foremost in the way that the activities are managed and promoted. The Board works very closely with the Manager and Investment Manager in reviewing how stakeholder issues are handled, ensuring good governance and responsibility in managing the Company's affairs, as well as visibility and openness in how the affairs are conducted.

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

## How the Board Engages with Stakeholders

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

Stakeholder	How We Engage
<b>Shareholders</b>	<p>Shareholders are key stakeholders and the Board places great importance on communication with them. The Board welcomes all shareholders' views and aims to act fairly to all shareholders. The Manager and Company's Stockbroker regularly meet with current and prospective shareholders to discuss performance and shareholder feedback is discussed by the Directors at Board meetings. In addition, Directors meet shareholders at the Annual General Meeting and the Chairman offers to meet with the Company's larger shareholders to discuss their views.</p> <p>The Company subscribes to the Manager's investor relations programme in order to maintain communication channels with the Company's shareholder base.</p> <p>Regular updates are provided to shareholders through the Annual Report, Half Yearly Report, monthly factsheets, Company announcements, including daily net asset value announcements, and the Company's website.</p> <p>The Company's Annual General Meeting provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager. The Board encourages as many shareholders as possible to attend the Company's Annual General Meeting and to provide feedback on the Company.</p>
<b>Manager (and Investment Manager)</b>	<p>The Investment Manager's Review on pages 26 to 32 details the key investment decisions taken during the year. The Investment Manager has continued to manage the portfolio and other assets in accordance with the mandate agreed with the Company, with oversight provided by the Board.</p> <p>The Board regularly reviews the Company's performance against its investment objective and the Board undertakes an annual strategy review meeting to ensure that the Company is positioned well for the future delivery of its objective for its stakeholders.</p> <p>The Board receives presentations from the Investment Manager at every Board meeting to help it to exercise effective oversight of the Investment Manager and the Company's strategy.</p> <p>The Board, through the Management Engagement Committee, formally reviews the performance of the Manager at least annually. More details are provided on page 56.</p>
<b>Service Providers</b>	<p>The Board seeks to maintain constructive relationships with the Company's service providers either directly or through the Manager with regular communications and meetings.</p> <p>The Management Engagement Committee conducts an annual review of the performance, terms and conditions of the Company's main service providers to ensure they are performing in line with Board expectations, carrying out their responsibilities and providing value for money.</p>

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# Promoting the Success of the Company

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<b>Investee Companies</b>	<p>Responsibility for monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.</p> <p>The Board has also given discretionary powers to the Manager to exercise voting rights on resolutions proposed by the investee companies within the Company's portfolio. The Manager reports on a quarterly basis on stewardship (including voting) issues.</p> <p>Through engagement and exercising voting rights, the Investment Manager actively works with companies to improve corporate standards, transparency and accountability. Further details are provided on page 17.</p> <p>The Board monitors investments made and divested and questions the rationale for investment and voting decisions made.</p>
<b>Debt Providers</b>	<p>On behalf of the Company, the Manager maintains a positive working relationship with The Royal Bank of Scotland International Limited, the provider of the Company's loan facility, and provides regular updates on business activity and compliance with its loan covenants.</p>
<b>Environment and Community</b>	<p>The Board and Manager are committed to investing in a responsible manner and the Investment Manager embeds Environmental, Social and Governance ("ESG") considerations into its research and analysis as part of the investment decision-making process. Further details are provided on page 35.</p>

## Specific Examples of Stakeholder

### Consideration During the Year

While the importance of giving due consideration to the Company's stakeholders is not a new requirement, and is considered during every significant Board decision, the Directors were particularly mindful of stakeholder considerations as part of the following decisions made during the year ended 30 June 2023. Each of these decisions was made after taking into account the short and long-term benefits for stakeholders.

### Portfolio and Investment Performance

The Investment Manager's Review on pages 26 to 32 details the key investment decisions taken during the year. The overall shape and structure of the investment portfolio is an important factor in delivering the Company's stated investment objective and is reviewed at every Board meeting.

As explained in more detail in the Chairman's Statement on page 8, the Board and Manager have discussed the investment strategy at length over the past couple of years but during the year, in addition, the Board spent time considering the root causes of the Company's underperformance in order to be confident that the investment thesis remained intact. It also carried out a detailed review to assess whether the investment process itself was being robustly implemented.

As a consequence of these reviews, the Board was able to support the Investment Manager's view that the drivers of current underperformance are primarily a confluence of external events which have created a difficult macro environment for investing in small companies generally, but particularly for the Investment Manager's investment style, which focuses on Quality, Growth and Momentum factors – and the Board believes does so to a greater extent than any of its peer group companies in the sector. Whereas this favours the performance of the Company in growth oriented markets, it creates very challenging conditions in the market conditions seen recently, which have resulted in periods of rotation and a continual de-rating of the highly rated growth companies which typify the portfolio.

As explained in more detail on page 56, during the year the Management Engagement Committee decided that the continuing appointment of the Manager is in the best interests of shareholders.

### Management Fee

As explained in the Chairman Statement on page 9, during the year, the Board considered that the existing structure of fees paid to the Manager made the Company insufficiently competitive relative to its closest peers. Accordingly, the Board negotiated a lower fee structure with the Manager which the Board considers is more competitive when compared to the other similar investment trusts in the sector.

## Dividends

The Board is recommending payment of a final dividend for the year of 8.00p per Ordinary share. Following payment of the final dividend, total dividends for the year will amount to 11.00p per Ordinary share, an increase of 35.8% compared to the previous year. Although the Company has a capital growth objective, the Board recognises the importance of dividends to shareholders.

## Share Buy Backs

In accordance with the discount control policy included on page 18, during the year the Company bought back 5,682,136 Ordinary shares to be held in treasury, providing a small accretion to the NAV per share and a degree of liquidity to the market at times when the discount to the NAV per share has widened in normal market conditions. It is the view of the Board that this policy is in the interest of all shareholders.

## Renewal of Bank Loan

On 1 November 2022 the Company renewed its loan facility with the Royal Bank of Scotland International, giving it access to a £40 million revolving credit facility ("RCF"), £25 million of which was drawn down at the year end. The gross level of borrowings was offset by cash and money market funds of £14.4 million resulting in net gearing at 30 June 2023 of 2.5% (2022: 5.1%).

The Board continues to believe that gearing is beneficial to long term net asset value returns and is one of the benefits of the closed ended investment trust structure.

## Consumer Duty

During the year, the FCA's Consumer Duty Regulations came into effect, introducing new rules for FCA regulated firms which manufacture or distribute products and services to retail customers. The Consumer Duty rules do not apply to the Company but do apply to the Manager,

The Board has reviewed the methodology employed by the Manager to assess value of the Company under the Consumer Duty regulations and will review the Manager's assessment of value on an ongoing basis.

## Board Succession

As explained in the Directors' Report on page 10, after seven years as a Director, Caroline Ramsay has informed the Board that she does not intend to stand for re-election at the Company's Annual General Meeting in November. Consequently, following a formal recruitment process, the Board decided to appoint Ms Manju Malhotra as an independent Director on 1 May 2023. New Board appointments seek to achieve a good balance of skills, experience, gender and ethnicity.

The Board believes that shareholders' interests are best served by ensuring a smooth and orderly refreshment of the Board which serves to provide continuity and maintain the Board's open and collegiate style.

## On behalf of the Board

**Liz Airey**  
Chairman  
24 August 2023

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# Performance

## Performance (total return)

	1 year return %	3 years return %	5 years return %	10 years return %
Net asset value <sup>A,B</sup>	-7.4	-4.4	-6.1	+98.9
Share price <sup>B</sup>	-6.8	-10.1	-10.4	+72.9
Reference Index	-2.8	+19.9	-0.7	+72.4
Peer Group weighted average (NAV)	+1.0	+24.5	+3.3	+107.3
Peer Group weighted average (share price)	+1.4	+20.1	-0.4	+113.3

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

<sup>B</sup> Considered to be an Alternative Performance Measure (see pages 101 to 103).

Source: Morningstar

## Long Term Total return of NAV v Share Price v Reference Index (rebased to 100 at 31 August 2003)



Source: Thomson Reuters Datastream

## Premium/(discount) of Share Price to NAV v Peer Group Five years ended 30 June 2023



Source: Thomson Reuters Datastream

## Ten Year Financial Record

Year to 30 June	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Per Ordinary share (p)</b>										
Net revenue return	5.05	6.76	6.76	6.42	7.24	8.80	6.74	6.43	9.07	<b>12.44</b>
Ordinary dividends paid/proposed	4.50	5.80	6.60	6.70	7.00	7.70	7.70	7.70	8.10	<b>11.00</b>
Net asset value <sup>a</sup>	298.92	336.89	345.43	456.60	552.93	539.54	527.73	737.97	530.37	<b>482.95</b>
Share price	281.25	300.00	316.00	431.00	500.00	491.50	482.00	698.00	453.00	<b>414.00</b>
Discount(%) <sup>d</sup>	5.9	10.9	8.5	5.6	9.6	8.9	8.7	5.4	14.6	<b>14.3</b>
Ongoing charges ratio (%) <sup>b</sup>	1.19	1.19	1.13	1.08	1.04	0.90	0.91	0.88	0.82	<b>0.95</b>
Gearing ratio (%) <sup>c</sup>	(4.6)	4.1	3.6	1.7	3.6	1.5	(0.3)	5.7	5.1	<b>2.5</b>
Shareholders' funds (£m) <sup>d</sup>	219	243	241	324	408	543	528	728	499	<b>427</b>
Revenue reserves (£m) <sup>e</sup>	4.34	5.83	6.50	6.26	8.30	10.87	8.80	7.53	8.81	<b>12.47</b>

<sup>a</sup> Calculated with debt at par value and diluted for the effect of Convertible Unsecured Loan Stock conversion from 01 July 2013 until 30 June 2017. From 30 June 2018, net asset value is calculated with debt at par value.

<sup>b</sup> Calculated as an average of shareholders' funds throughout the year and in accordance with updated AIC guidance issued in October 2020, to include the Company's share of costs of holdings in investment companies on a look-through basis.

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

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

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

# Investment Manager's Review

*The net asset value ("NAV") total return for the Company for the year ended 30 June 2023 was -7.4%, while the share price total return was -6.8%. By comparison, the UK smaller companies sector as represented by the Numis Smaller Companies plus AIM (ex investment companies) Index (the "reference index") delivered a total return of -2.8%.*

## Equity Markets

During the year under review, markets were volatile and top down driven, with the dominating narrative one of persistent inflation and higher interest rates. Against this backdrop, bottom-up company fundamentals have come second. Whilst the portfolio holdings have been delivering well fundamentally, that has often not been reflected in share prices.

The UK stock market, as represented by the FTSE All-Share Index, gained a small amount of ground over the period, with a total return of 7.9%. The FTSE 100 Index outperformed the FTSE 250 Index (excluding investment companies), the latter of which generated a total return of only 1.9%. Investors have remained cautious around the UK economic picture, which has challenged the more domestically focused small and mid-cap areas of the market.

The period was dominated by high inflation, rising interest rates and fears of a sustained economic downturn. Inflation drivers included the war in Ukraine as well as unsettled supply chains post Covid. Political uncertainty in the UK did little to reduce share-price volatility, with Boris Johnson's resignation as Prime Minister in July and the tax-cutting strategy unveiled by his successor Liz Truss in September adding to market turbulence. Inflation reached 10.1% in July, and the Bank of England ("BoE") warned that price rises could accelerate in the autumn as a result of higher energy costs. The BoE continued to tighten monetary policy by raising interest rates to combat inflation. Through late 2022, data showed successive falls in output in the UK manufacturing sector, while retail spending weakened, and we saw a sharp rise in mortgage rates.

In the aftermath of the disastrous mini-Budget presented by new prime minister Liz Truss and her chancellor Kwasi Kwarteng at the end of September, Truss was forced to sack Kwarteng, reverse her tax-cutting policies and finally resign, to be replaced by Rishi Sunak. These developments were welcomed by markets.

UK small and mid-cap equities enjoyed a positive final quarter of calendar year 2022 as hopes rose that inflation had peaked and central banks would soon slow the pace of monetary-policy tightening. However, there remained significant difficulties and recession risk for the UK economy. The mid-cap FTSE 250 Index rose by 10.6% in the final quarter of 2022, reversing some of the heavy losses seen earlier in the year, whilst the FTSE Small Cap Index returned 8.9%. Officials said rates would continue to increase until inflation was significantly closer to the 2% long-term target, regardless of the short-term economic impact. Late 2022 also saw many industries battling with supply chain challenges, a result of Covid shutdowns combining with increasing re-opening demand. This provided many challenges for companies and was a contributor to the inflationary pressures. As we turned into 2023, many of the supply shortages and logistics challenges had eased - one less headache for companies to try to navigate.

**"The period was dominated by high inflation, rising interest rates and fears of a sustained economic downturn. Inflation drivers included the war in Ukraine as well as unsettled supply chains post Covid. Political uncertainty in the UK did little to reduce share-price volatility."**

The turn of the year saw the strongest surprises coming through in consumer-exposed companies; consumer spending proving more resilient than expected. The fear of a tough two year recession outlined by the BoE appeared behind us for now. Hopes rose that the pace of interest rate rises would start to slow, while indicators suggested the economy would avoid falling into recession. Disappointingly, inflation remaining stubbornly high. March saw the collapse of Silicon Valley Bank and a loss of confidence in Credit Suisse sparked fears about the resilience of the global financial system. Trading conditions in a number of sectors remained challenging. Mortgage lending declined to its lowest level since 2016 in February, while in March house prices recorded their steepest falls since 2009, a sharp reminder of the broad global challenges.

However, with UK inflation remaining high and above other major geographies, and interest rates continuing to increase, UK share prices lagged major markets in Europe and North America. The big question globally, but particularly in the UK, with GDP numbers proving more resilient than many thought, is whether we get a recession or not.

## Performance

Overall through the year, the net asset value ("NAV") fell by 7.4% on a total return basis, underperforming the reference index total return of -2.8%.

We had hoped for a more stable backdrop for the period, yet the dominating market narrative has been one of UK inflation that requires the BoE to increase interest rates. Through the period, policymakers still expected inflation to be benign and central banks to increase rates slowly. This, however, proved to be too complacent as the UK suffered from high persistent inflation and this changed the trajectory of interest rates. Inflation injects uncertainty into stock markets, affecting investor confidence. Value stocks typically have strong current cash flows which are more likely to grow slowly or diminish over time, while growth stocks are likely to represent fast growing companies that have stronger cash flows in the future. When valuing companies' share prices using the discounted cash flow method in times of rising interest rates, growth stocks are hit harder by this effect than value stocks. This has placed our Quality, Growth and Momentum process out of favour.

Our quality focus has ensured that we have invested in companies which have had supportive earnings and resilience. These companies have also demonstrated pricing power with the ability to protect margins. The portfolio has not been entirely immune from macro shocks, but we have seen the overall resilience and growth delivering robust dividend payments.

The final quarter of 2022 saw UK markets rebound sharply, and the portfolio outperformed the reference index. That rally came earlier than many would have expected, given the recession outlook. We believe this highlighted the attractive valuations those growth businesses are trading on, combined with the resilient earnings growth they continue to provide.

Early 2023 saw market relief as consumers appeared resilient in the face of the cost of living squeeze. This drove the market to focus less on quality, and cheaper rated and more cyclical companies performed well, proving a more difficult start to the calendar year for the Company. As we moved through the remainder of the financial year, macro top down influences continued to drive the direction of the

markets, however we have felt more comfortable with the degree of rationalism in share price moves, and the focus towards company fundamentals. Whilst the market remains wary of companies which are trading at high valuations relative to their history, we have seen overall less of a value bias to the market in recent months, and we are seeing more importance placed back on factors such as earnings revisions.

The five leading positive contributors to relative performance during the year were as follows (the year end portfolio weightings are included on pages 39 to 40):

- **4imprint** 198bps (shares +106%) delivered strong results through the year exceeding expectations on many occasions, and also providing strong dividend growth and a special dividend. Whilst benefitting from increased face to face interactions at events driving promotional product usage, self-help growth has been enabled through spend on marketing in a highly fragmented market, capturing market share and new repeat customers.
- **Games Workshop** 135bps (shares +60%) has delivered strong growth despite consumer spending challenges globally. Its continued investment in new product innovation and community engagement is paying off, resulting in dividend increases and strong returns for shareholders again this year. The shares were also supported by the announcement of Amazon taking a license for Warhammer for TV production.
- **Diploma** 99bps (shares +33%) traded well through the year, proving itself as a quality industrial company. To complement organic growth, it has also completed attractive bolt on acquisitions, such as the TIE deal which was partly funded through an equity raise.
- **Kainos** 95bps (shares +11%) has successfully navigated the macroeconomic environment this year, delivering consistent growth and pricing power to offset wage inflation. Its customer base is sticky, and digitisation spend remains a priority for corporates. With the departure of long term respected CEO Brendan Mooney, it has also demonstrated strong succession planning.
- **discoverIE** 88bps (shares +27%) has proved another quality industrial business, trading strongly through the year. It has proactively chosen exposures to regulatory and structurally growing areas, and with products being designed into its customers' solutions, this provides stickiness of revenue and resultant visibility of earnings. In addition, it has complemented organic growth through bolt on acquisitions.

# Investment Manager's Review

## Continued

The five worst contributors to relative performance during the year were as follows (the year end portfolio weightings are included on pages 39 to 40):

- **Focusrite** -130bp (shares -57%) the shares have struggled this year, partly as a normalisation of Covid spending has impacted demand for the company's products. It navigated supply chain issues early in the year and continued to invest in new product solutions to drive demand.
- **Hilton Food** -11.1bps (shares -38%) the shares suffered from a short term inability to pass on all input cost inflation in the fish division of the business. This was successfully navigated within a few months, and in the second half of the period the company traded strongly and also announced interesting new customer wins.
- **Future** -106bps (shares -60%) the shares suffered from a lower advertising spend environment, as well as concerns on consumer spend softening. The CEO also announced her intention to leave the company, which created more market uncertainty over the outlook for the business.
- **Mortgage Advice Bureau** -99bps (shares -33%) was a casualty of the Truss mini budget, driving interest rates up and causing activity on housing and mortgages to fall sharply. Whilst activity levels and its shares recovered in early 2023, they are still below previous levels, and more recent mortgage rate increases will be challenging in the short term. Over the medium term this remains a very strong business, taking market share and with many levers for growth.
- **Marshalls** -85bps (shares -46%) has suffered from reduced activity in residential refurbishment and improvement work, as well as lower new build housing activity. The commercial and infrastructure side of the business has remained more resilient, and the management team has taken cost and restructuring action to support the business against the macro-economic challenges currently being faced.

### Dealing and Activity

Portfolio turnover was around 15%, which represents an average holding period of almost seven years and is not out of line with previous periods. Over the year, we added eight new positions, and exited eleven holdings. There were no IPO participations this period, in a quiet year in the markets for IPO activity.

We initiated positions in some holdings which have been held historically in the portfolio. **Ricardo** has transformed its business, now positioned as a leader in environmental and engineering consultancy; working with governments, agencies and corporates to implement sustainability agendas and strategies. **Paragon Banking** is a specialist lender, with a focus on buy-to-let markets in the UK. The business has demonstrated strong credit quality through the years, and with a strong retail funding model and capital support, it continues to take market share as a specialist, particularly in the professional landlord arena. **Smart Metering Systems** has two key divisions; household smart meters which provide long term visible and inflation linked revenue streams, along with the new exposure to battery storage in grid networks - an attractive return and growth exposure for the business. **FDM Group** is a specialist at recruiting, training and deploying IT and business professionals, operating globally. **Craneware** is a technology specialist operating in the US healthcare market, focused on financial and operational optimisation for hospitals. **Coats** is a global leader in thread production, with exposure to apparel, footwear and specialty markets. One key growth area for its business is its leading position in sustainable thread, a product increasingly in demand as industries move towards more sustainable production. **Alpha Group** (previously called Alpha FX) is another business which has expanded into interesting adjacent markets; now half fintech, half consultancy. Whilst its FX (foreign exchange) risk management business for corporates has gone from strength to strength, it has also expanded into banking solutions for alternative asset managers, and the corporate services and fund administration companies that support them. **Spirent** is a leading provider of automated testing and assurance solutions for networks, security and positioning.

**"Over the year, we added eight new positions into the portfolio, and exited eleven holdings. There were no IPO participations this period, in a quiet year in the markets for IPO activity."**

Key tops up in the period included the position in **Volution** (leading supplier of ventilation products, with global exposure), **CVS** (vet practices across the UK), and **Serica Energy** (North Sea gas and oil producer). We also added to **4imprint** (US promotional products), **Games Workshop** (hobby business with Warhammer IP), **YouGov** (data services business for market research), **Gamma Communications** (telecommunication and services provider for businesses), **Midwich** (audio visual value added reseller), **Treantt** (natural flavours and fragrances), and **Tatton Asset Management** (a leading provider to the UK's IFA community, including through strong growth in its MPS (managed portfolio services) offering).

**"We exited a number of positions over the period, where we no longer felt a high level of conviction in the investment cases."**

Key reductions to positions were in companies across a range of sectors. We trimmed the position in **Kainos** where the valuation of the business left demanding earnings upgrades required, and the environment has got tougher in some areas such as the NHS. **Watches of Switzerland** showed resilient demand and order books, but some weakness in its jewellery exposure, and we were conscious that the market was looking to derate this business given consumer concern. We also reduced the holding in **Alpha Financial Markets** but remain very positive on the outlook and growth of this business. **GB Group** was challenged by earnings downgrades from the normalisation in cryptocurrency markets. **Telecom Plus** is a resilient revenue stream business, but its valuation had increased considerably prior to the period, and some market headwinds were increasing. We controlled the position size in **Diploma**, which continued to deliver strong results, but whose market capitalisation is now quite large. Real Estate was a sector where we trimmed holdings in **Safestore** and **Sirius Real Estate**, with the macro environment more challenging, particularly with higher interest rates.

We exited a number of positions over the period, where we no longer felt a high level of conviction in the investment cases. **Watkin Jones** suffered from the mini budget crisis, which highlighted the lumpiness of the business and the potential macro driven risks. **Hotel Chocolat** struggled as consumer weakness in the UK, combined with continued Covid disruption in its new market of Japan, meant the revenue weakness drove earnings downgrades, all at the same time as capacity expansion across the manufacturing base. That consumer weakness was a concern across a few of the exits; **Moonpig** where we felt it made the likelihood of increasing the gift attach rate to orders harder to progress, **Gear4Music** which had benefitted a lot from the shift to ecommerce during Covid, which was then normalising, **Inspects** where we had started to see discretionary spend cause weakness in the demand for glasses, and **Jet2** where the cost-of-living crisis presented challenges to the security of demand and the ability to pass on inflationary cost pressures. **Molten Ventures** struggled with its share price falling, reflecting the concern of investors that the pricing of private assets falling given market conditions wasn't being reflected in the listed market. In the case of **Gooch and Housego**, supply chain and inflationary pressures were challenging, as well as the need to invest in the business, driving earnings downgrades. With **Big Yellow** we felt the environment for the business was more challenging, combined with the pressures from higher interest rates. **Alliance Pharma's** shares were challenged by Covid-related Chinese issues, as well as a historic investigation into the CEO. Lastly, we exited the holding in **Intermediate Capital**, a company which has done very well for the portfolio over the years but is really now a large company, where the macro environment presented some challenges.

#### Discount

As at 30 June 2023, the cum-income discount to NAV stood at 14.3%. The simple average discount for the close peers as a whole was 13.6%. Whilst we have been disappointed with the steeper discount, it has not been out of line with the sector. The discount is more or less unchanged from where it was this time last year. The width of the discount is indicative of the issue where UK domestic companies are out of favour with investors as the Company has been active in buying back shares throughout the period.

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# Investment Manager's Review

## Continued

### Gearing

The level of gearing (net of cash) at 30 June 2023 was 2.5%. Gearing was reduced in late 2022, repaying £15 million of the £40 million previously drawn down under the loan facility. We remain positive on the medium to long-term potential of the asset class and would consider increasing gearing at an appropriate point dependent on macro-economic conditions. We have continued to hold cash in the portfolio due to market uncertainty and to ensure we can participate in market opportunities and are not liquidity constrained.

### Revenue Account

Dividend income generated by the portfolio increased by 18.5% over the year. At the same time, the increase in base rates has had a knock-on effect on the interest income generated on cash balances held by the company. After 10 years of virtually nil returns on cash, we received £526,000 in interest income during the year.

The dividend outlook of the Company, seen through its income generation from the underlying holdings, has remained strong. We were pleased with the resilience seen through the challenging Covid period, and the income generation from companies has continued to strengthen. The earnings resilience and growth being delivered by the companies in the portfolio is being reflected in the dividend growth they are providing. Despite tricky macro-economic conditions, which often temper the wording in company outlook statements, the strong dividend payments from the portfolio companies have been a real sign of the underlying confidence of management teams. The ability to deliver these dividend returns to shareholders has been supported by balance sheet strength.

**"The dividend outlook of the Company, seen through its income generation from the underlying holdings, has remained strong."**

There are currently eight holdings in the portfolio which we don't expect to be dividend payers in the near future, currently re-investing back into their businesses to drive growth; **Auction Technology, Big Technologies, Ergomed, LBG Media, Marlowe, Motorpoint, Team17 and Watches of Switzerland**. We have seen special dividends from three holdings this year; **Bytes Technology, Hollywood Bowl and 4imprint**, which in aggregate amounted to £942,000 or 7.2% of investment income.

### Outlook

Stock markets continue to be dominated by macro conditions, predominantly the pathway of inflation and interest rates, globally. The UK appears to be showing stickier inflation than many other key markets. Whilst energy prices have stepped back, we are seeing areas such as food inflation in the UK remain at high levels, and wage inflation and a strong labour market continue to support consumer spending. Without a recession, there remains the challenge of how inflation gets controlled; interest rates having already been increased significantly, but often taking some time to have an impact. UK valuations have derated significantly and are at attractive levels relative to other regions, providing an opportunity for investors to look at the value inherent in the UK market. If UK inflation reduces to a lower level, comparable to the Eurozone and the US, this could drive UK markets to recover and refocus on company fundamentals. Falling inflation could be that catalyst for our style to perform better and cause flows to shift into the UK market.

We'd also remind investors of the geographic exposures of the portfolio companies' revenues. At the time of writing, 51% of revenues are generated in the UK, with 49% overseas. This is not too far away from the exposure within the reference index. Many of the companies in the portfolio, as has been true through time and a result also of our investment process, have strong international growth exposure. Some are global leaders in what they do. Whilst overseas exposure is a positive factor, given healthier economic outlooks in some geographies, and diversification benefits, we are mindful of recent Sterling strength which may cause some currency headwinds for overseas exposures.

In a recession, or low economic growth environment, we believe the market will look towards resilience, reliability, visible revenue streams and strong balance sheets. We've seen these characteristics fundamentally demonstrated by the portfolio companies over this period, clear also through the dividend strength delivered. Where economic growth becomes scarcer, companies which continue to generate strong growth will be rarer assets. Our ability to identify companies which can deliver sustained earnings growth in that environment should be rewarded, and we believe even the last 18 months of challenging market times has shown evidence of our judgement on the fundamental performance of the investee companies.

In a period of more positivity in markets, small and mid-cap stocks tend to lead, and the outlook for the asset class should be attractive. Small and mid-caps in the UK have lagged large companies in the market moves since the start of 2022.

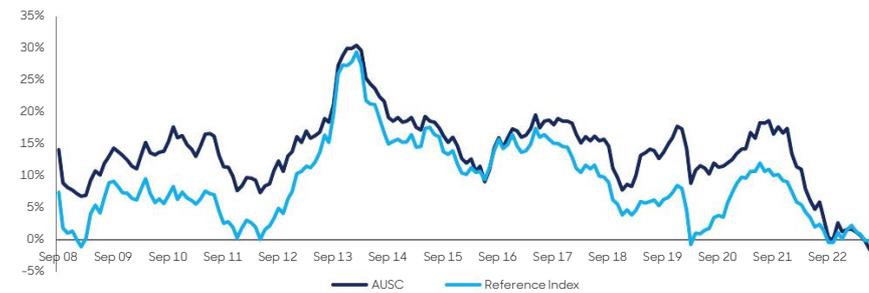
We continue to believe there are opportunities for businesses which deliver well on earnings expectations, to outperform, with many currently trading on undemanding valuations. The valuations currently being paid for growth companies in UK small mid-cap markets remain significantly below historic levels, whereas in other regions the market is now paying a 10 year median valuation for growth businesses again. We therefore believe there is a re-rating opportunity.

Since our appointment as Investment Manager in 2003, including the current downturn, there have been falls in the market of over 40% on three occasions. Markets anticipate improvements, and indeed turning points in the past have always been when the outlook is bleakest. In the UK small and mid-caps sector, the turn of the calendar year looks to have seen the direction of earnings revisions change positively. This isn't out of line with previous market rotations where, on average, markets start to recover a few months before the turn in earnings. We take this as a positive indicator of market direction, although the risks of recession still remain given the macro-economic challenges.

The Company's discount to NAV is at a level not seen since 2009, with both the UK Small Cap sector being out of favour with investors, as well as disappointing underperformance by the Company this year, particularly driven by our style of investment not being favoured in a period where Value has been in focus.

Smaller company markets have higher levels of risk and volatility, which in part reflects the potential for higher returns in the long run. Thus, Smaller Companies as an asset class should be viewed as a long-term multi-year investment to achieve these potential strong returns that have historically been available. We have included the following chart to show the benefits of a long term holding period in the Company. Market timing is challenging, particularly in the small cap area, and often it is "time in" rather than "timing" which is critical.

Monthly Rolling 5 year Share price Total Returns of AUSC and the Reference Index to 30 June 2023 (annualised)



Source: Refinitiv Datastream, Reference Index since 31 December 2017 is the Numis Smaller Companies plus AIM ex Investment Companies Index. Prior to that date it was the Numis Smaller Companies Index ex Investment Companies Index

# Investment Manager's Review

Continued

As mentioned in last year's Annual Report, but sadly still an important factor, UK markets really need to see inflation come under control and the shape of any potential imminent recession. The UK is already pricing in a lot of negativity; therein lies the longer term opportunity, particularly when coupled with the Company's current discount level.

**"We remain confident that our Quality, Growth and Momentum investment process generates strong returns from smaller companies in the long-term. Our process has been seasoned by five economic cycles."**

Whilst we constantly challenge short-term influences and how macroeconomic conditions impact factors driving the market, we remain confident that our Quality, Growth and Momentum investment process generates strong returns from smaller companies in the long-term, as demonstrated by the chart above and in the 10 year performance record and longer term performance chart on page 24. Our process has been seasoned by five economic cycles.



Abby Glennie and Amanda Yeaman  
abrdn  
24 August 2023

# Investment Process

abrdn UK Smaller Companies Growth Trust plc offers an actively managed portfolio of equity shares of smaller and mid-sized companies listed in the UK. Over the longer term, smaller company returns have outstripped those of their large-cap peers.

## Management

The Company's Manager is abrdn Fund Managers Limited ("aFML", the "AIFM" or the "Manager"). aFML is a wholly owned subsidiary of abrdn plc. The Company's portfolio is managed by abrdn Investment Management Limited (the "Investment Manager") by way of a group delegation agreement in place between it and aFML. Abby Glennie joined the Smaller Companies Team at abrdn in 2016. She was appointed as Co-Manager for the Company in November 2020 and Lead Manager in January 2023. Amanda Yeaman joined the team in 2019 and was appointed as Deputy Manager in January 2023. They are both part of a team focusing on investing in smaller and mid-sized companies.

## Investment Philosophy and Process

The Board has identified that abrdn has a proven and repeatable investment process, which has delivered strong returns to shareholders over the last 20 years. The investment process adheres to the abrdn Smaller Companies' Quality, Growth and Momentum led philosophy. The Investment Manager aims to select lower risk smaller companies in growing markets where business momentum is positive, predictable and improving. The Investment Manager has a long-term investment horizon, aiming to maximise returns by running winners in the long-term and cutting losers. The investment process embeds abrdn's Environmental, Social and Governance principles.

## The Matrix

In managing the Company's investment portfolio, the Quality, Growth and Momentum philosophy is enhanced by using abrdn's proprietary screening tool, 'The Matrix', to focus research efforts and the stock selection process.

The Matrix is a quantitative screening tool assessing potential and current investments on 12 separate proven indicators of financial performance. It is a powerful tool in helping the Investment Manager identify a shortlist of investable stocks for further analysis and monitoring the performance and prospects of the portfolio. Stocks that are identified in this way are then subjected to further analysis and may be selected for the portfolio following discussions with company management.



# Investment Process

Continued

When building a portfolio of smaller companies, the Investment Manager screens stocks using the Matrix and also considers a number of qualitative factors to help identify the best investment opportunities.

## 1. Sustainable growth

Companies in the portfolio will often produce niche products or services where demand is forecast to rise as these characteristics are the most predictive of future earnings and dividend growth.

## 2. Quality

The strength of each company's relationships with its customers or clients, the existence and importance of long-term contracts and the degree to which the company has any element of pricing power is important as it allows the company to pass on any cost increases and thereby maintain margins. The Investment Manager will typically avoid companies with high or unsustainable levels of debt.

## 3. Buy for the long-term

Identify the great companies of tomorrow and then hold them for the long-term. This reduces the financial drag of high trading volumes.

## 4. Concentrate the effort

The Matrix helps identify the likely candidates for inclusion in the portfolio and reduces the risk that effort is spent on stocks that will not fulfil the criteria for inclusion within the portfolio.

## 5. Management longevity

Founders retaining positions of authority within the companies after flotation, along with longevity of tenure by CEOs are a positive signal.

## 6. Valuation is secondary

Invest in companies which demonstrate positive earnings momentum as the team believes that it is a reliable predictor of future performance.



Although environmental, social and governance ("ESG") factors are not the over-riding criteria in relation to the investment decisions taken by the Investment Manager, prominence is placed on ESG and climate related factors throughout the investment process.

### ESG Factors

The Investment Manager considers ESG risks and opportunities for all of its investments and thus, ESG considerations are inextricably embedded into the investment process in order to achieve a successful and sustainable performance for the longer term. The Smaller Companies Team recognises that a full and thorough assessment of ESG factors allows better investment decisions to be made that lead to better outcomes for clients; with ESG aspects considered alongside other financial and fundamental factors in order to make the best possible investment decisions at a stock picking and at a portfolio construction level.

ESG analysis is a core constituent in the "Quality" analysis of the team's fundamental research. Especially for smaller companies, both risks and opportunities matter, and thus the research approach and analysis reviews this accordingly. All of the team's equity analysts are required to carry out an ESG quality assessment which will be reflected in the research note provided for each of the companies under coverage.

The Smaller Companies Team works closely with the ESG specialists in abrdn, while at the same time having an on-desk ESG analyst to assist in the research process and ESG engagements with companies. Through the utilisation of a third party research provider such as MSCI and, more recently abrdn's in-house ESG rating tools, the team is able to identify, where appropriate, leaders and laggards, areas of weakness and areas of strength. Ratings processes for smaller companies can be less accurate given data availability and coverage, and therefore the engagement and fundamental research the Investment Manager and ESG equity analyst do with the investee companies is critical in adding value and ensuring the most important ESG risks and opportunities are well identified. Given the importance of ESG matters, these factors are reviewed on an ongoing basis in addition to monitoring companies' actions to assess the need for further engagement and/or changes to the internal investment view. Finally, as part of broader stewardship activities, the team participates actively in the voting process of the holdings, in line with best practice.

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# Portfolio

Investments in the Food Producers sector include Hilton Food and Cranswick.



The Investment Manager aims to select lower risk smaller companies in growing markets where business momentum is positive, predictable and improving. The Investment Manager has a long-term investment horizon, aiming to maximise returns by running winners in the long-term and cutting losers.

# Ten Largest Investments

As at 30 June 2023



## 4imprint

A direct marketer of promotional products, with a focus on the US.



## Bytes Technology

A UK based company that provides information technology ("IT") software offerings and solutions, with a focus on cloud and security products.



## discoverIE

Designs and manufactures innovative electronic components, used in industrial applications. Its four target markets have regulatory and sustainability drivers; renewable energy, transportation, medical and industrial automation & connectivity.



## Games Workshop

Designs and manufactures miniature figures and games and distributes them through its own network of retail stores, independent retailers and online via global web stores.



## JTC

A global professional service business, with a focus on fund, corporate and private client services, including fund administration.



## Alpha Financial Markets

Alpha Financial Markets is a founder-led consultancy firm, with a focus on asset management and insurance industries. It is UK and US focused and is growing through organic growth and complementary accretive bolt on acquisitions.



## Diploma

A global business supplying specialised technical products and services, with a focus on three sectors; Life Sciences, Seals and Controls.



## Hill & Smith

A business involved in the design, manufacture and supply of products for the construction and infrastructure industries.



## CVS

A company that is engaged in providing veterinary services. The Company operates veterinary practices, veterinary diagnostic businesses, pet crematoria and an online retail business.



## Ergomed

Ergomed provides specialised services to the pharma industry, around clinical research and regulatory demands.

# Investment Portfolio

As at 30 June 2023

Company	Sector	Valuation 2023 £'000	Total portfolio %	Valuation 2022 £'000
4imprint	Media	18,408	4.2	8,336
Bytes Technology	Software and Computer Services	15,071	3.5	12,934
discoverIE	Technology Hardware and Equipment	15,023	3.4	11,662
Games Workshop	Leisure Goods	14,771	3.4	7,770
JTC	Investment Banking and Brokerage Services	14,562	3.3	12,196
Alpha Financial Markets	Industrial Support Services	14,542	3.3	20,033
Diploma	Industrial Support Services	13,709	3.1	13,064
Hill & Smith	Industrial Metals and Mining	13,317	3.0	10,841
CVS	Consumer Services	13,071	3.0	8,715
Ergomed	Pharmaceuticals and Biotechnology	12,859	2.9	13,189
<b>Top ten investments</b>		<b>145,333</b>	<b>33.1</b>	
Cranswick	Food Producers	12,482	2.8	14,181
Gamma Communications	Telecommunications Service Providers	12,015	2.7	11,110
Hilton Food	Food Producers	11,518	2.6	18,858
Telecom Plus	Telecommunications Service Providers	11,247	2.6	20,999
Big Technologies	Software and Computer Services	11,053	2.5	8,701
Morgan Sindall	Construction and Materials	10,980	2.5	10,896
Kainos	Software and Computer Services	9,623	2.2	21,199
Hollywood Bowl	Travel and Leisure	9,550	2.2	7,923
Coats	General Industrials	9,036	2.1	-
GlobalData	Media	8,998	2.1	9,593
<b>Top twenty investments</b>		<b>251,835</b>	<b>57.4</b>	
Next 15 Communications	Media	8,657	2.0	12,477
Paragon Banking	Investment Banking and Brokerage Services	8,500	1.9	-
Safestore	Real Estate Investment Trusts	8,430	1.9	21,795
Midwich	Industrial Support Services	8,420	1.9	10,012
Auction Technology	Software and Computer Services	8,278	1.9	10,204
Smart Metering Systems	Industrial Support Services	8,046	1.8	-
Trealtt	Chemicals	7,966	1.8	8,921
Mortgage Advice Bureau	Investment Banking and Brokerage Services	7,803	1.8	-
Impax Asset Management	Investment Banking and Brokerage Services	6,831	1.6	8,451
YouGov	Media	6,602	1.5	2,265
<b>Top thirty investments</b>		<b>331,368</b>	<b>75.5</b>	

# Investment Portfolio

Continued

As at 30 June 2023

Company	Sector	Valuation 2023 £'000	Total portfolio %	Valuation 2022 £'000
Volution	Construction and Materials	6,524	1.5	2,458
Sirius Real Estate	Real Estate Investment and Services	6,384	1.4	11,855
XP Power	Electronic and Electrical Equipment	6,107	1.4	13,121
Watches of Switzerland	Personal Goods	6,071	1.4	12,018
Serica Energy	Oil, Gas and Coal	5,951	1.4	3,483
Robert Walters	Industrial Support Services	5,943	1.4	8,363
Team 17	Leisure Goods	5,771	1.3	7,264
AJ Bell	Investment Banking and Brokerage Services	5,577	1.3	4,663
Marshalls	Construction and Materials	5,495	1.3	12,567
Mattioli Woods	Investment Banking and Brokerage Services	5,331	1.2	6,118
<b>Top forty investments</b>		<b>390,522</b>	<b>89.1</b>	
Craneware	Health Care Providers	4,510	1.0	-
Henry Boot	Real Estate Investment and Services	4,471	1.0	7,942
Marlowe	Industrial Support Services	4,376	1.0	5,861
Future	Media	4,239	1.0	13,377
Focusrite	Leisure Goods	4,187	0.9	14,143
Tatton Asset Management	Investment Banking and Brokerage Services	4,000	0.9	2,555
Alpha Group	Industrial Support Services	3,799	0.9	-
Ricardo	Construction and Materials	3,566	0.8	-
FDM Group	Software and Computer Services	3,401	0.8	-
Liontrust Asset Management	Investment Banking and Brokerage Services	3,391	0.8	5,769
<b>Top fifty investments</b>		<b>430,462</b>	<b>98.2</b>	
LBG Media	Media	3,064	0.7	3,451
GB Group	Software and Computer Services	2,328	0.5	8,570
Spirent	Technology Hardware and Equipment	1,499	0.4	-
Motorpoint	Retailers	1,055	0.2	3,640
<b>Total portfolio</b>		<b>438,408</b>	<b>100.0</b>	

All investments are equity investments.

# Sector Distribution of Investments

As at 30 June 2023

	Portfolio weighting	
	2023 %	2022 %
<b>Basic Materials</b>	4.8	3.8
Chemicals	1.8	1.7
Industrial Metals and Mining	3.0	2.1
<b>Consumer Discretionary</b>	23.9	24.7
Consumer Services	3.0	1.7
Household Goods and Home Construction	-	0.5
Leisure Goods	5.6	5.8
Media	11.5	9.5
Personal Goods	1.4	3.0
Retailers	0.2	1.6
Travel and Leisure	2.2	2.6
<b>Consumer Staples</b>	5.4	7.3
Food Producers	5.4	7.3
<b>Energy</b>	1.4	0.7
Oil, Gas and Coal	1.4	0.7
<b>Financials</b>	12.8	12.0
Finance and Credit Services	-	2.6
Investment Banking and Brokerage Services	12.8	9.4
<b>Health Care</b>	3.9	2.9
Health Care Providers	1.0	-
Pharmaceuticals and Biotechnology	2.9	2.9
<b>Industrials</b>	23.0	18.4
Construction and Materials	6.1	5.0
Electronic and Electrical Equipment	1.4	2.5
General Industrials	2.1	-
Industrial Support Services	13.4	10.9
<b>Real Estate</b>	4.3	9.5
Real Estate Investment and Services	2.4	3.8
Real Estate Investment Trusts	1.9	5.7
<b>Technology</b>	15.2	14.6
Software and Computer Services	11.4	11.7
Technology Hardware and Equipment	3.8	2.9
<b>Telecommunications</b>	5.3	6.1
Telecommunications Service Providers	5.3	6.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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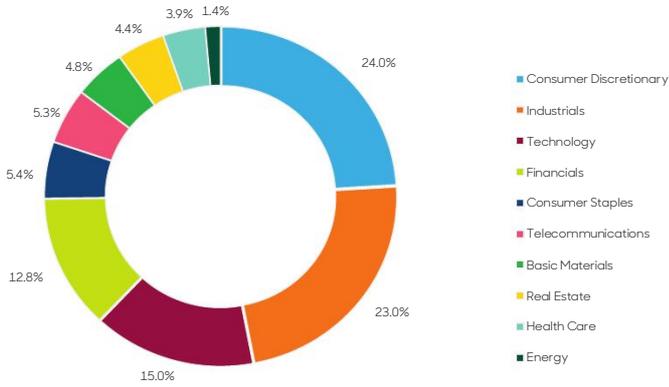
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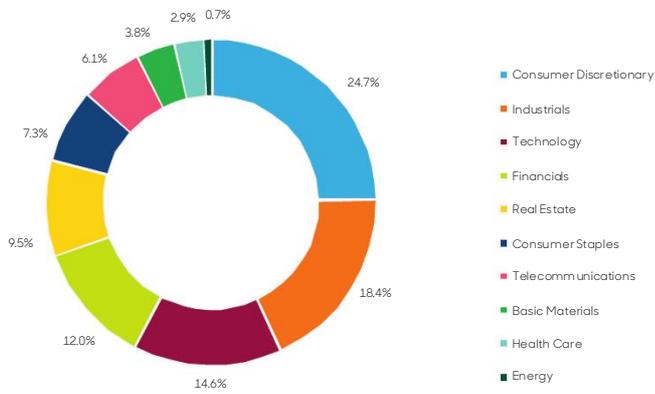
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# Investment Portfolio by Sector

## Sector Allocation 2023

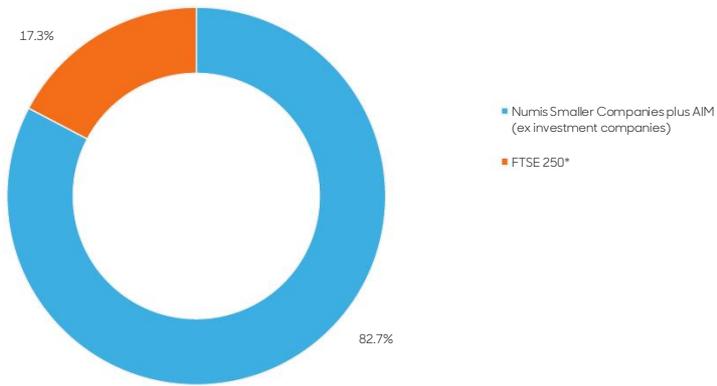


## Sector Allocation 2022

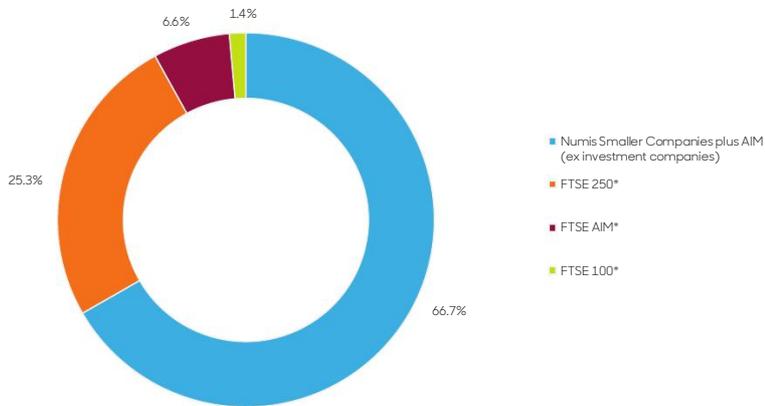


# Market Cap Exposure

## Market cap exposure 2023



## Market cap exposure 2022



\* Consists of holdings which are not constituents of the Numis Smaller Companies plus AIM (ex investment companies) Index.



### 4imprint

4imprint is a direct marketing business which supplies a range of promotional products and branded apparel to all types of organisations. It operates primarily in North America, and has a small business in the UK. The company has a strong history of organic sales growth in the highly fragmented US market. The business is high quality and financially strong, and low levels of capital employed have resulted in strong cash flows. It has delivered an impressive step change in marketing efficiency that management believes stems from sustained investment through the pandemic and a shift towards brand awareness from print. This has also been enhanced by prioritised access to suppliers amid supply chain strains during the first half of 2022, as well as broader post Covid-19 rebound trends. 2022 was a record year for earnings and management has confirmed that the growth has continued into 2023. Profits are increasing due to the reconfigured marketing portfolio and operational gearing relating to semi-variable and fixed costs in the business. In addition, the shift in the marketing mix from catalogues to TV is driving an increase in the revenue per marketing Dollar. The Investment Manager believes that the strength of the model is such that the business will continue the current upgrade cycle.

Whilst the Investment Manager does acknowledge that the business ultimately sells into cyclical corporate marketing budgets, it thinks that marketing costs (and therefore earnings) will react very differently compared to the last downturn in 2009. This ultimately relates to product mix, where TV (brand) and online activity, which now dominate marketing budgets, are more flexible than print.

4imprint scores well on the Investment Manager's stock screening tool, the Matrix. The company has a net cash balance sheet and its shares provide a dividend yield of approximately 3%. Going forward, the Investment Manager believes that 4imprint is well placed to take a greater share of the market. During the year, the Investment Manager had an encouraging ESG specific meeting with management to learn more about the company's sustainability, supply chain due diligence, data protection, carbon neutrality plans and development of staff.

A special dividend was announced by the company with its full-year results in March 2023, highlighting the confidence in the business. Based on the current rating of the company's shares, the Investment Manager sees strong share price potential in 4imprint's proven, long-term growth story.

The holding was increased during the year.

## Big Technologies

Big Technologies is a technology business introduced to the portfolio at the time of its IPO July 2021. Despite a wide sell-off in many technology shares globally since then, its share price sits well above the float price. In the Investment Manager's view, this has been driven by the strong execution, contract wins and uniqueness of the company's proposition in a global market. It is a founder-run business, started in 2005, with the CEO, Sara Murray OBE, having previously founded Confused.com. The CEO is strongly aligned with shareholders, given her 25% stake in the business.

The company is a market leading provider of electronic monitoring ("EM") systems operating under the brand "Buddi". Its key customer set is criminal justice systems across the world, where the EM solutions utilise location technologies to remotely monitor and manage people within correctional systems. Its technology is used within the mainstream business of 80% of the UK police forces and it also has strong contracts in other countries, including Australia, New Zealand and Columbia.

For justice systems, the use of EM can save significant costs compared to incarceration, and can also help to reduce re-offender rates, driving adoption and structural growth rates across the EM industry globally. Market growth in countries already using EM is estimated at 6-10% per annum.

Critically, Big Technologies' solutions are of premium standard compared to competitors, helping it win market share; on reliability, security, ease of use and accuracy. This drives lower false alerts and lower operating costs for local authorities. For the tag wearers, the Big Technologies solution is more subtle to wear and has a longer battery life. The company estimates a 72% reduction in false alerts compared to competitors. The company has demonstrated strong product development, and this helps expand its total addressable markets. It has entered the care sector as well as digital health, with its latest product around substance detection.

The financials of the company are strong, with good cash generation and a net cash balance sheet. This allows it to continue to invest in the business, and the strong organic growth might in the future be complemented by bolt on acquisitions. The strong earnings growth and upgrades to expectations have helped to support the valuation multiple of the company's shares. The Investment Manager believes that the company will continue to increase its market share, and with a well invested product and infrastructure, this revenue growth potential should translate well to future earnings growth.



# Governance

Within the Pharmaceuticals and Biotechnology sector, the Company has an investment in Ergomed.





The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with the Manager.

## Board of Directors



**Liz Airey**  
Independent Non-Executive Chairman

**Experience:**

Liz Airey was, until March 2020, non-executive Chairman of Jupiter Fund Management plc. She is a non-executive director of BlackRock Frontiers Investment Trust plc and Kirk Lovegrove & Company Limited, an advisory board member of Ownership Capital BV and Chair of Trustees of the Rolls-Royce UK Pension Fund. She has previously been a non-executive director of Tate & Lyle plc, Dunedin Enterprise Investment Trust plc, JP Morgan European Smaller Companies Trust plc, Zetex plc and AMEC plc. In her executive career, Liz was Finance Director of Monument Oil and Gas plc, a post she held from 1990 until the sale of the company to Lasmo plc in 1999.

**Length of service:**

4 years, appointed a Director on 21 August 2019 and Chairman on 31 March 2020

**Committee membership:**

Management Engagement Committee and Nomination Committee (Chairman)

**Contribution:**

The Directors have reviewed the contribution of Liz Airey in light of her proposed re-election at the AGM and has concluded that she has continued to chair the Board expertly, fostering a collaborative spirit between the Board and Manager whilst ensuring that meetings remain focused on the key areas of stakeholder relevance. In addition, she has provided significant insight to the Board through her financial and corporate experience and knowledge of the investment management sector.



**Ashton Bradbury**  
Independent Non-Executive Director

**Experience:**

Ashton Bradbury has previously held roles at Charterhouse Tilney, Hill Samuel Investment Management and HSBC Asset Management Europe and was, until 2014, a fund manager with Old Mutual Global Investors Limited, where he established its Small and Mid-Cap equities team. Ashton is currently a non-executive director of British Golf Association Limited and is non-executive Chairman of Golf Union of Wales Limited. He holds a BSc in Banking and Finance from Loughborough University of Technology.

**Length of service:**

5 years, appointed a Director on 2 July 2018

**Committee membership:**

Audit Committee, Management Engagement Committee and Nomination Committee

**Contribution:**

The Board has reviewed the contribution of Ashton Bradbury in light of his proposed re-election at the AGM and has concluded that he continues to provide significant investment insight to the Board and knowledge of the asset class and investment management sector.



**Alexa Henderson**

Independent Non-Executive Director

**Experience:**

Alexa Henderson has over 30 years' experience in finance, accounting and audit having worked with KPMG, Arthur Andersen and Deutsche Bank (WM Company). She is currently Chairman of JP Morgan Japan Small Cap Growth & Income PLC and a director of WAM Leaders Limited, an Australian-listed investment company. Previous directorships include Dunedin Smaller Companies Investment Trust PLC, Scottish Building Society (which she chaired for four years) and Adam & Company Group PLC. She is a Chartered Accountant.

**Length of service:**

5 years, appointed a Director on 8 October 2018

**Committee membership:**

Audit Committee, Management Engagement Committee and Nomination Committee

**Contribution:**

The Board has reviewed the contribution of Alexa Henderson in light of her proposed re-election at the AGM and has concluded that she continues to provide significant financial and corporate insight to the Board and knowledge of the investment trust sector.



**Manju Malhotra**

Independent Non-Executive Director

**Experience:**

Manju Malhotra is Chief Executive Officer of Harvey Nichols, a position she has held since January 2020. She joined the business in 1998 and progressed through various roles including Chief Operating Officer and prior to that as CFO. Manju is also a non-executive director of Workspace Group plc. She is a Chartered Accountant.

**Length of service:**

Appointed a Director on 1 May 2023

**Committee membership:**

Audit Committee, Management Engagement Committee and Nomination Committee

**Contribution:**

The Board has reviewed the contribution of Manju Malhotra in light of her proposed election at the AGM and has concluded that she has already provided meaningful financial, business and corporate insight to the Board in the short period following her appointment.

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# Board of Directors

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## Caroline Ramsay

Independent Non-Executive Director and Chairman of the Audit Committee

### Experience:

Caroline Ramsay is a member of the Supervisory Board of Aegon NV and was previously a non-executive director of Aegon UK PLC, Scottish Equitable plc, Scottish Equitable Holdings Limited and Cofunds Limited. She is also a non-executive director of Tesco Underwriting Limited, Brit Syndicates Limited and Ardonagh Speciality Holdings Limited, and is a member of the Financial Conduct Authority's Regulatory Decisions Committee. Until June 2015, Caroline was the Group Chief Auditor for RSA plc having held previous senior positions at RSA plc, including UK Chief Financial Officer. After qualifying and practising as a Chartered Accountant with KPMG, she held various roles within Aviva Plc.

### Length of service:

7 years, appointed a Director on 22 August 2016

### Committee membership:

Audit Committee (Chairman), Management Engagement Committee and Nomination Committee

### Contribution:

The Board has reviewed the contribution of Caroline Ramsay and has concluded that she has continued to chair the Audit Committee expertly and continues to provide significant financial insight to the Board. As explained in the Chairman's Statement, Caroline Ramsay will retire as a Director at the AGM on 23 November 2023 and will not seek re-election.



## Tim Scholefield

Senior Independent Non-Executive Director and Chairman of the Management Engagement Committee

### Experience:

Tim Scholefield previously held roles at Royal Sun Alliance Investments and Scottish Widows Investment Partnership. He was, until 2014, Head of Equities at Baring Asset Management. Tim is currently Chairman of Invesco Bond Income Plus Limited and Allianz Technology Trust PLC, and a non-executive director of CT UK Capital and Income Investment Trust PLC. In addition, he is a non-executive director of Jupiter Unit Trust Managers Limited and a consultant to Gresham House Asset Management.

### Length of service:

6 years, appointed a Director on 20 February 2017

### Committee membership:

Audit Committee, Management Engagement Committee (Chairman) and Nomination Committee

### Contribution:

The Board has reviewed the contribution of Tim Scholefield in light of his proposed re-election at the AGM and has concluded that he has continued to chair the Management Engagement Committee expertly as well as acting as the Senior Independent Director. He continues to provide significant investment insight to the Board and knowledge of the investment management and investment trust sectors

# Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2023.

## Results and Dividends

The financial statements for the year ended 30 June 2023 are contained on pages 79 to 100. An interim dividend of 3.00p per Ordinary share was paid on 14 April 2023 and the Directors recommend a final dividend of 8.00p per Ordinary share, payable on 30 November 2023 to shareholders on the register on 3 November 2023. The ex-dividend date is 2 November 2023.

## Principal Activity and Status

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

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

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

## Capital Structure and Voting Rights

The Company's issued share capital at 30 June 2023 consisted of 88,329,911 (2022: 94,012,047) Ordinary shares of 25 pence each and there were 15,834,511 (2022: 10,152,375) Ordinary shares held in treasury, representing 17.9% of the issued share capital as at that date (excluding treasury shares).

During the year, 5,682,136 Ordinary shares were bought back into treasury.

Since the year end, the Company has bought back a further 1,995,572 Ordinary shares into treasury. Accordingly, as at the date of this Report, the Company's issued share capital consisted of 86,334,339 Ordinary shares of 25 pence each and 17,830,083 Ordinary shares held in treasury.

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

## Management Agreement

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

During the year, the management fee was calculated quarterly in arrears as 0.85% per annum applying to the first £250 million of the Company's net assets, 0.65% per annum applying to net assets above this threshold until £550 million, and 0.55% applying to net assets above this threshold. In addition, the Manager received a secretarial and administration fee of £75,000 plus VAT.

The Manager also receives a separate fee for the provision of promotional activities to the Company. This fee amounted to £301,000 plus VAT for the year (2022: £246,000 plus VAT).

Further details of the fees payable to the Manager are shown in notes 4 and 5 to the financial statements and the Chairman's Statement on page 9 contains details of changes to the management fee arrangements since the end of the year.

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

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# Directors' Report

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### Directors

Manju Malhotra was appointed as an independent non-executive Director of the Company on 1 May 2023.

Biographies of all of the Directors are shown on pages 48 to 50. Liz Airey is the Chairman and Tim Scholefield is the Senior Independent Director.

Manju Malhotra will stand for election at the Annual General Meeting on 23 November 2023. Other than Caroline Ramsay, all of the other Directors will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting. As explained in the Chairman's Statement, Caroline Ramsay will retire as a Director following the conclusion of the Annual General Meeting.

The Directors attended scheduled Board and Committee meetings during the year ended 30 June 2023 as follows (with their eligibility to attend the relevant meetings in brackets):

	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings	Nomination Committee Meetings
Liz Airey	5 (5)	- (-) <sup>a</sup>	1 (1)	3 (3)
Ashton Bradbury	5 (5)	2 (2)	1 (1)	3 (3)
Alexa Henderson	5 (5)	2 (2)	1 (1)	3 (3)
Manju Malhotra	1 (1)	- (-)	1 (1)	1 (1)
Caroline Ramsay	5 (5)	2 (2)	1 (1)	3 (3)
Tim Scholefield	5 (5)	2 (2)	1 (1)	3 (3)

<sup>a</sup> Liz Airey is not a member of the Audit Committee but attends the meetings by invitation

The Board meets more frequently when business needs require. During the year ended 30 June 2023 this included a Board meeting to approve the appointment of a new Director. In addition, there were two Board Committee meetings to approve the annual and half yearly financial statements. All Directors attended the Annual General Meeting held on 20 October 2022.

The Board believes that all the Directors seeking re-election remain independent of the Manager and free from any relationship which could materially interfere with the exercise of their judgement on issues of strategy, performance, resources and standards of conduct. The biographies of each of the Directors are shown on pages 48 to 50, setting out their range of skills and experience as well as length of service and their contribution to the Board during the year. The Board believes that each Director has the requisite high level and range of business, investment and financial experience which enables the Board to provide clear and effective leadership and proper governance of the Company. Following formal performance evaluations, each Director's performance continues to be effective and demonstrates commitment to the role, and their individual performances contribute to the long-term sustainable success of the Company. In addition, all Directors have demonstrated that they have sufficient time to fulfil their directorial roles with the Company. The Board therefore recommends the re-election of each of the Directors at the Annual General Meeting.

### External Agencies

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

## Board Diversity

The Board recognises the importance of having a range of skilled and experienced individuals with the right knowledge represented on the Board in order to allow it to fulfil its obligations. The Board also recognises the benefits and is supportive of the principle of diversity in its recruitment of new Board members. The Board will not display any bias for age, gender, race, sexual orientation, socio-economic background, religion, ethnic or national origins or disability in considering the appointment of its Directors. In view of its size, the Board will continue to

ensure that all appointments are made on the basis of merit against the specification prepared for each appointment. In doing so, the Board will take account of the targets set out in the FCA's Listing Rules, which are set out in the tables below.

The Board has resolved that the Company's year end date is the most appropriate date for disclosure purposes. The following information has been provided by each Director through the completion of questionnaires. There have been no changes since the year end.

### Board Gender as at 30 June 2023

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (note 3)	Number in executive management	Percentage of executive management
Men	2	33%	1		
Women	4	67% (note 1)	3	n/a	n/a
Not specified/prefer not to say	-	-	-		

### Board Ethnic Background as at 30 June 2023

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (note 3)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	5	83%	4		
Asian/Asian British (note 2)	1	17%	-	n/a	n/a
Not specified/prefer not to say	-	-	-		

#### Notes:

1. Meets target of at least 40% as set out in LR 9.8.6R (9)(a)(i)
2. Meets target of at least 1 as set out in LR 9.8.6R (9)(a)(iii)
3. The Company considers that the role of Chairman, Senior Independent Director ("SID") who is also Chairman of the Management Engagement Committee, and the chairmen of the Audit Committee and Nomination Committee are senior positions.

# Directors' Report

## Continued

### Board's Policy on Tenure

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

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

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

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

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

### Management of Conflicts of Interest

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

No Director has a service contract with the Company although all Directors are issued with letters of appointment. Other than the deeds of indemnity referred to on page 62, there were no contracts during, or at the end of the year, in which any Director was interested.

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

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

## Directors' and Officers' Liability Insurance

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

## Corporate Governance

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

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

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

The UK Code includes provisions relating to:

- interaction with the workforce (provisions 2, 5 and 6);
- the role and responsibility of the chief executive (provisions 9 and 14);
- the need for an internal audit function (provision 25);
- previous experience of the chairman of a remuneration committee (provision 32); and
- executive directors' remuneration (provisions 33 and 36 to 41).

The Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC, provides more relevant information to shareholders. Full details of the Company's compliance with the AIC Code of Corporate Governance can be found on its website.

## Matters Reserved for the Board

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

These matters include:

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

# Directors' Report

## Continued

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

### Board Committees

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

#### Audit Committee

The Audit Committee's Report is contained on pages 66 to 69.

#### Management Engagement Committee

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

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

As explained in more detail in the Chairman's Statement on page 8, the Board and Manager have discussed the investment strategy at length over the past couple of years but during the year, in addition, the Board spent time considering the root causes of the Company's underperformance in order to be confident that the investment thesis remained intact. It also carried out a detailed review to assess whether the investment process itself was being robustly implemented.

As a consequence of these reviews, the Board was able to support the Investment Manager's view that the drivers of current underperformance are primarily a confluence of external events which have created a difficult macro environment for investing in small companies generally, but particularly for the Investment Manager's investment style, which focuses on Quality, Growth and Momentum factors – and the Board believes does so to a greater extent than any of its peer group companies in the sector. Whereas this favours the performance of the Company in growth oriented markets, it creates very challenging conditions in the market conditions seen recently, which have resulted in periods of rotation and a continual de-rating of the highly rated growth companies which typify the portfolio.

As also explained in the Chairman Statement on page 9, during the year, the Board considered that the existing structure of fees paid to the Manager made the Company insufficiently competitive relative to its closest peers. Accordingly, the Board negotiated a lower fee structure with the Manager which the Board considers is more competitive when compared to the other similar investment trusts in the sector.

Following this work, the Management Engagement Committee recommended to the Board that the continuing appointment of the Manager was in the best interests of the shareholders and the Company as a whole. In addition to the matters highlighted above, the Management Engagement Committee is satisfied that the abrdn Group has the appropriate compliance, secretarial, administrative and promotional skills required for the effective operation and administration of the Company.

#### Nomination Committee

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

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience, diversity and gender) of the Board;
- undertaking succession planning, taking into account the challenges and opportunities facing the Company and identifying candidates to fill vacancies;

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

In respect of the appointment of Manju Malhotra, who was appointed as an independent non-executive Director on 1 May 2023, the Board used the services of an external search consultant, Audeliss Limited. Audeliss Limited does not have any other connections with the Company or individual Directors.

During the year, the Nomination Committee undertook an annual appraisal of the Chairman of the Board, individual Directors and the performance of Committees and the Board as a whole. This process involved the completion of questionnaires by each Director and follow-on discussions between the Chairman and each Director. The appraisal of the Chairman was undertaken by the Senior Independent Director. The results of the process, as well as a review of the prior year's action points, were discussed by the Board. It was agreed that the previous year's action points had been satisfactorily carried through in the year. The primary focus points for Board effectiveness in the year ahead were agreed to be the following:

- continue the close scrutiny of the investment process and the risk oversight of it;
- follow closely the development of the Manager's Consumer Duty reporting;
- monitor the impact on shareholders of the cessation of the abrdn Share Plans;
- ensure the retail shareholder promotional plan and budget are appropriately revised; and
- further improve the focus and timeliness of Board papers.

Following this process, the Board concluded that it continues to operate well and effectively and is focussing on the right issues in its work to promote the success of the Company and that each Director makes a significant contribution to the Board.

The Committee last conducted an independent external Board evaluation during the year ended 30 June 2022.

### Substantial Interests

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

The table below sets out the interests in 3% or more of the issued share capital of the Company, of which the Board was aware as at 30 June 2023.

Shareholder	Number of Ordinary shares	% held
Hargreaves Lansdown	9,589,569	10.8
Interactive Investor	8,791,381	9.9
1607 Capital Partners	6,915,877	7.8
RBC Brewin Dolphin	6,820,513	7.7
abrdn Retail Plans	6,383,480	7.2
AJ Bell	4,239,158	4.8
Rathbones	3,621,425	4.1
City of London Investment Management	3,173,607	3.5
WM Thomson	3,088,233	3.5

The Company has not been notified of any changes to the above holdings since the end of the year.

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### Going Concern

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

As at 30 June 2023, the Company had a £40 million unsecured revolving credit facility with The Royal Bank of Scotland International Limited which expires on 1 November 2025.

The Directors are mindful of the Principal Risks and Uncertainties disclosed in the Strategic Report on pages 14 to 16 and they believe that the Company has adequate financial resources to continue in operational existence for a period of not less than 12 months from the date of approval of this Report. They have arrived at this conclusion having confirmed that the Company's diversified portfolio of realisable securities is sufficiently liquid and could be used to meet short-term funding requirements were they to arise. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Statement of Financial Position as at 30 June 2023 which shows net current liabilities of £11.8 million at that date, and do not consider this to be a concern due to the liquidity of the portfolio which would enable the Company to meet any short term liabilities if required.

Taking all of this into account, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

### Accountability and Audit

The respective responsibilities of the Directors and the Independent Auditor in connection with the financial statements appear on pages 72 and 73 to 78.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

### Independent Auditor

Shareholders approved the re-appointment of KPMG LLP as the Company's Independent Auditor at the AGM on 20 October 2022 and resolutions to approve its re-appointment for the year to 30 June 2024 and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

### Financial Instruments

The financial risk management objectives and policies arising from financial instruments and the exposure of the Company to risk are disclosed in note 16 to the financial statements.

### Relations with Shareholders

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

abrdn Holdings Limited has been appointed Company Secretary to the Company. Whilst abrdn Holdings Limited is a wholly owned subsidiary of abrdn plc, there is a clear separation of roles between the Manager and Company Secretary with different board compositions and different reporting lines in place. The Board notes that, in accordance with Market Abuse Regulations, procedures are in place to control the dissemination of information within the abrdn plc group of companies when necessary. Where correspondence addressed to the Board is received there is full disclosure to the Board. This is kept confidential if the subject matter of the correspondence requires confidentiality.

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (including the Company Secretary or the Manager) in situations where direct communication is required, and representatives from the Manager meet with major shareholders on at least an annual basis in order to gauge their views, and report back to the Board on these meetings.

The Company's Annual General Meeting provides a forum for communication primarily with private shareholders and is attended by the Board. The Investment Manager makes a presentation at the meeting and all shareholders have the opportunity to put questions to both the Board and the Manager at the meeting. The Board also hosts a regular 'Meet the Manager' session at which the Investment Manager and members of the Board are present and to which all shareholders are invited, last held in May 2022.

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

### Additional Information

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

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

The rules governing the appointment of Directors are set out in the Directors' Remuneration Report on pages 62 to 65. The Company's Articles of Association may only be amended by a special resolution passed at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover. Other than the management agreement with the Manager, further details of which are set out on page 51, the Company is not aware of any contractual or other agreements which are essential to its business which could reasonably be expected to be disclosed in the Directors' Report.

### Annual General Meeting

The Notice of the Annual General Meeting ("AGM"), which will be held at 12 noon on Thursday, 23 November 2023, and related notes, may be found on pages 116 to 121.

Resolutions including the following business will be proposed.

#### Issue of Ordinary Shares

Resolution 12, which is an ordinary resolution, will, if passed, renew the Directors' authority to allot new Ordinary shares up to 10% of the issued share capital of the Company (excluding treasury shares) as at the date of this Report.

Resolution 13, which is a special resolution, will, if passed, renew the Directors' existing authority to allot new Ordinary shares or sell treasury shares for cash without the new Ordinary shares first being offered to existing shareholders in proportion to their existing holdings. This will give the Directors authority to make limited allotments or sell shares from treasury of up to 10% of the total ordinary issued share capital (excluding treasury shares) as at the date of this Report.

The authority to issue shares on a non pre-emptive basis includes shares held in treasury (if any) which the Company sells or transfers, including pursuant to the authority conferred by resolution 12.

New Ordinary shares will only be issued at prices representing a premium to the last published net asset value per share.

The authorities being sought under resolutions 12 and 13 shall expire at the conclusion of the Company's next AGM in 2024 or, if earlier, on the expiry of 15 months from the date of the passing of the resolutions, unless such authorities are renewed prior to such time. The Directors have no current intention to exercise these authorities and will only do so if they believe it is advantageous and in the best interests of shareholders.

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### Purchase of the Company's Ordinary Shares

Resolution 14, which is a special resolution, seeks to renew the Board's authority to make market purchases of the Company's Ordinary shares in accordance with the provisions contained in the Companies Act 2006 and the FCA's Listing Rules. Accordingly, the Company will seek authority to purchase up to a maximum of 14.99% of the issued share capital (excluding treasury shares) at the date of passing of the resolution at a minimum price of 25 pence per share (being the nominal value). Under the Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed the higher of: (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares over the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out.

The Board does not intend to use this authority to purchase the Company's Ordinary shares, unless to do so would result in an increase in the net asset value per Ordinary share and would be in the best interests of shareholders. Any Ordinary shares purchased shall either be cancelled or held in treasury. The authority being sought shall expire at the conclusion of the AGM in 2024 or, if earlier, on the expiry of 15 months from the date of the passing of the resolution unless such authority is renewed prior to such time.

The Company bought back 5,682,136 Ordinary shares during the year ended 30 June 2023, representing 6.0% of the opening issued share capital. These buy backs were conducted in accordance with the Company's discount control policy which is included on page 18. It is the view of the Board that this policy is in the best interests of shareholders as a whole. The use of the share buy back authority during the year is set out in the Chairman's Statement on page 10.

### Tender Offers

In addition to the authority that is being sought by the Company under resolution 14 to purchase its own Ordinary shares of 25 pence each, resolution 15, which is a special resolution, grants the Board the authority to implement one or more tender offers and to repurchase up to a maximum of 10% of the Company's issued share capital in the financial year prior to the conclusion of the next AGM. If resolution 15 is passed, the tender offers will be structured by way of an on-market offer by a market-maker and the price will be an amount equal to the realisation value of the assets attributable to the shares tendered, as at the latest practicable date before such tender, less an exit charge of 2%. The shares will subsequently be bought back by the Company from the market-maker at the same price and cancelled or held in treasury.

If resolution 15 is passed, such authority will expire at the conclusion of the Company's AGM in 2024 or, if earlier, on the expiry of 15 months from the date of the passing of the resolution unless renewed prior to that date.

Any future tender offers will be conducted at the Board's discretion in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level. Any tender offers will be conducted in accordance with the FCA's Listing Rules and the rules of the London Stock Exchange. If the Board decides to implement a tender offer, shareholders will be notified prior to each tender offer of the full terms and conditions of the tender offer and the procedure for tendering shares.

### Notice of Meeting

Under the Companies Act 2006, the notice period for the holding of general meetings of the Company is 21 clear days unless shareholders agree to a shorter notice period and certain other conditions are met. Resolution 16, which is a special resolution, will seek to authorise the Directors to call general meetings of the Company (other than Annual General Meetings) on not less than 14 clear days' notice, as permitted by the Companies Act 2006 as amended by the Companies (Shareholders' Rights) Regulations 2009.

It is currently intended that this flexibility to call general meetings on shorter notice will only be used for non-routine business and where it is considered to be in the interests of all shareholders. If resolution 16 is passed, the authority to convene general meetings on not less than 14 clear days' notice will remain effective until the conclusion of the AGM in 2024.

### Recommendation

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company and most likely to promote the success of the Company for the benefit of its members as a whole. Accordingly, the Board recommends that shareholders vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings, amounting to 77,136 Ordinary shares, representing 0.09% of the Company's issued share capital as at the date of this Report.

**By order of the Board**  
**abrdr Holdings Limited**  
Company Secretary  
1 George Street  
Edinburgh EH2 2LL  
24 August 2023

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# Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 21 October 2020;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

Company law requires the Company's Independent Auditor to audit certain of the disclosures provided in the Directors' Remuneration Report. Where disclosures have been audited, they are indicated as such. The Independent Auditor's report is included on pages 73 to 78.

As the Company has no employees, and the Board is comprised wholly of non-executive Directors, and given the size and nature of the Company, the Board has not established a separate Remuneration Committee. The Director's Remuneration Policy and level of Directors' remuneration are determined by the Nomination Committee, which is chaired by Liz Airey and comprises all of the Directors.

The Directors' Remuneration Policy takes into consideration the principles of UK corporate governance and the AIC's recommendations regarding the application of those principles to investment companies.

No shareholder views have been sought in setting the remuneration policy (approved by shareholders at the Annual General Meeting on 21 October 2020) and no communication was received from shareholders during the year regarding Directors' remuneration.

## Remuneration Policy

The Company's policy is that the remuneration of the Directors, all of whom are non-executive, should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts with a similar capital structure and similar investment objectives.

Directors are remunerated exclusively in the form of fees, payable monthly in arrears to the Director personally. The fees for the Directors are determined within the limits set out in this Remuneration Policy which limits the aggregate of the fees payable to the Directors to £200,000 per annum.

It is intended that the fees payable to the Directors should reflect their duties, responsibilities, and the value and amount of time committed to the Company's affairs, and should also be sufficient to enable candidates of a high quality to be recruited and retained. There is no performance-related remuneration scheme and therefore the Directors do not receive bonuses, pension benefits, share options, long-term incentive schemes or other benefits, and the fees are not specifically related to the Directors' performance, either individually or collectively.

## Appointment Terms

- The Company only intends to appoint non-executive Directors.
- All the Directors are non-executive and are appointed under the terms of letters of appointment.
- The terms of appointment provide that Directors should retire and be subject to election at the first Annual General Meeting after their appointment. The Company's Articles of Association require all Directors to retire by rotation at least every three years. However, notwithstanding the Articles of Association, the Board has agreed that all Directors should retire annually and, if appropriate, seek re-election at the AGM.
- Any Director newly appointed to the Board will receive the fee applicable to each of the other Directors at the time of appointment together with any other fee then currently payable in respect of a specific role which the new Director is to undertake for the Company. Fees are pro-rated where a change takes place during a financial year.
- No incentive or introductory fees will be paid to encourage a person to become a Director.
- Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.
- Directors are entitled to re-imbursment of out-of-pocket expenses incurred in connection with the performance of their duties, including travel expenses.
- The Company indemnifies its Directors under deeds of indemnity for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties as a Director of the Company.

### Performance, Service Contracts, Compensation and Loss of Office

- Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- The terms of appointment provide that a Director may be removed without notice.
- There is no notice period and no provision for compensation upon early termination of appointment, save for any arrears of fees which may be due.
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

There were no changes to the Directors' Remuneration Policy during the year nor are there any proposals for changes in the foreseeable future.

### Approval of Remuneration Policy and Statement of Voting at Annual General Meeting

At the Annual General Meeting held on 21 October 2020, shareholders approved the Directors' Remuneration Policy. 99.3% of proxy votes were in favour of the resolution, 0.6% were against and 0.1% abstained.

A resolution to approve the Remuneration Policy will be proposed at the Annual General Meeting to be held on 23 November 2023. The Remuneration Policy is reviewed by the Nomination Committee on an annual basis and it is the Committee's intention that this Remuneration Policy will apply for the three year period ending 30 June 2026.

### Implementation Report

#### Review of Directors' Fees

The levels of fees at the year end are set out in the table below. Fees are reviewed annually and, if considered appropriate, increased accordingly.

	30 June 2023 £	30 June 2022 £
Chairman	38,500	37,400
Chairman of the Audit Committee	31,000	29,700
Chairman of the Management Engagement Committee	27,750	27,000
Director	26,000	25,300

The Nomination Committee carried out a review of the level of Directors' fees during the year, which included consideration of fees paid by comparable investment trusts and the sector as a whole. Following this review, the Nomination Committee concluded that fees would be increased with effect from 1 July 2023 to £40,700 for the Chairman, £32,800 for the Chairman of the Audit Committee, £29,400 for the Chairman of the Management Engagement Committee and £27,500 for the other Directors. The Nomination Committee was not provided with advice or services by any person in respect of its consideration of the Directors' remuneration.

### Company Performance

The graph below shows the share price total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the Numis Smaller Companies plus AIM (ex investment companies) Index for the ten year period to 30 June 2023 (rebased to 100 at 30 June 2013). This index was chosen for comparison purposes as it is the reference index used for investment performance measurement purposes.



### Statement of Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 20 October 2022, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 30 June 2022. 99.2% of proxy votes were in favour of the resolution, 0.6% were against and 0.2% abstained.

A resolution to approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 30 June 2023 will be proposed at the Annual General Meeting.

# Directors' Remuneration Report

## Continued

### Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors are shown below.

### Directors' Remuneration (audited)

The Directors who served during the year received the following emoluments in the form of fees and taxable expenses:

	Year ended 30 June 2023			Year ended 30 June 2022		
	Fees £	Taxable Expenses £	Total £	Fees £	Taxable Expenses £	Total £
Liz Airey	38,500	334	38,834	37,400	-	37,400
Ashton Bradbury	26,000	1,309	27,309	25,300	203	25,503
Alexa Henderson	26,000	-	26,000	25,300	-	25,300
Manju Malhotra <sup>A</sup>	4,333	579	4,912	-	-	-
Caroline Ramsay	31,000	1,339	32,339	29,700	151	29,851
Tim Scholefield	27,750	789	28,539	27,000	172	27,172
<b>Total</b>	<b>153,583</b>	<b>4,350</b>	<b>157,933</b>	<b>144,700</b>	<b>526</b>	<b>145,226</b>

<sup>A</sup> Appointed a Director on 1 May 2023

The above amounts exclude any employers' national insurance contributions, if applicable. All fees are at a fixed rate and there is no variable remuneration. Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties included in the fees referred to in the table above. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

### Annual Percentage Change in Directors' Remuneration

The table below sets out the annual percentage change in Directors' fees for the past three years.

	Year ended 30 June 2023	Year ended 30 June 2022	Year ended 30 June 2021	Year ended 30 June 2020
	Fees %	Fees %	Fees %	Fees %
Liz Airey <sup>A</sup>	2.9	6.9	n/a	n/a
Ashton Bradbury	2.8	6.8	-	3.0
Alexa Henderson <sup>B</sup>	2.8	6.8	-	n/a
Manju Malhotra <sup>C</sup>	n/a	n/a	n/a	n/a
Caroline Ramsay	4.4	6.8	-	3.0
Tim Scholefield	2.8	7.1	-	2.9

<sup>A</sup> Appointed a Director on 21 August 2019 and Chairman on 31 March 2020

<sup>B</sup> Appointed a Director on 8 October 2018

<sup>C</sup> Appointed a Director on 1 May 2023

#### Directors' Interests in the Company (audited)

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 30 June 2023 and 30 June 2022 had no interest in the share capital of the Company other than those interests, all of which are beneficial, shown in the following table.

	30 June 2023 Ordinary shares	30 June 2022 Ordinary shares
Liz Airey	50,000	40,000
Ashton Bradbury	10,000	10,000
Alexa Henderson	4,391	4,391
Manju Malhotra <sup>A</sup>	-	n/a
Caroline Ramsay	4,545	4,545
Tim Scholefield	8,200	5,964

<sup>A</sup> Appointed a Director on 1 May 2023

There have been no changes to the Directors' interests in the share capital of the Company since the year end up to the date of approval of this Report.

#### Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, it is confirmed that the above Remuneration Report summarises, as applicable, for the year to 30 June 2023:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

#### On behalf of the Board

**Liz Airey**  
Chairman  
24 August 2023

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# Audit Committee's Report

The Audit Committee presents its Report for the year ended 30 June 2023.

## Committee Composition

The Audit Committee comprises all of the non-executive Directors other than the Chairman of the Board. The Audit Committee is chaired by Caroline Ramsay who is a Chartered Accountant and has recent and relevant financial experience. The Board is satisfied that the Audit Committee as a whole has competence relevant to the investment trust sector. As stated in the Chairman's Statement on page 10, Caroline Ramsay will retire at the Annual General Meeting and it is intended that Manju Malhotra will replace her as Chairman of the Audit Committee at that time.

## Functions of the Audit Committee

The principal role of the Audit Committee is to assist the Board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Audit Committee has defined terms of reference which are reviewed and re-assessed for their adequacy on at least an annual basis. Copies of the terms of reference are published on the Company's website and are available from the Company on request.

The Committee's main functions are listed below:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant and internal audit and compliance reports relating thereto (including review of non-financial risks) (the Directors' statement on the Company's internal controls and risk management is set out below);
- to consider whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half-yearly and annual financial statements of the Company and any formal announcements relating to the Company's financial performance, by reviewing, and challenging where necessary the actions and judgements of the Manager;
- to review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, half-yearly financial reports, and any formal announcements relating to the Company's financial performance;
- to review the content of the Annual Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to meet with the Independent Auditor to review the proposed audit programme of work and the findings of the Independent Auditor. The Audit Committee shall also use this as an opportunity to assess the effectiveness of the audit process;
- to develop and implement policy on the engagement of the Independent Auditor to supply non-audit services. All non-audit services must be approved in advance by the Audit Committee and will be reviewed in the light of relevant guidance and statutory requirements regarding the provision of non-audit services by the external audit firm, and the need to maintain the Auditor's independence. There were no non-audit fees paid to the Independent Auditor during the year under review or during the previous year;
- to obtain and review a statement from the abrdn Group detailing the arrangements in place within the group whereby staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations to the Board in relation to the appointment of the Independent Auditor and to approve the remuneration and terms of engagement of the Independent Auditor; and
- to monitor and review the Auditor's independence, objectivity, effectiveness, resources and qualification, taking into consideration relevant UK professional and regulatory requirements;

## Activities During the Year

The Audit Committee met twice during the year when, amongst other things, it reviewed and updated the Company's risk matrix, with particular consideration given to new and emerging risks. The Committee also met with the Independent Auditor to discuss its audit strategy. At these meetings the Committee also considered in detail the Annual Report and the Half-Yearly Financial Report. Representatives of the abrdn Group's internal audit, risk and compliance departments reported to the Audit Committee at these meetings on matters such as internal control systems, risk management and the conduct of the business in the context of its regulatory environment. No significant weaknesses in the control environment were identified. The Committee therefore concluded that there were no significant issues which required to be escalated to the Board.

## Internal Controls and Risk Management

The Audit Committee confirms that there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that has been in place for the year ended 30 June 2023 and up to the date of approval of the Annual Report, which is regularly reviewed by the Audit Committee and accords with the FRC's guidance on internal controls.

The Board has overall responsibility for ensuring that there is a system of internal controls and risk management in place and a process for reviewing its effectiveness. Day-to-day measures have been delegated to the Manager with an effective process of reporting to the Board for supervision and control. The system of internal controls and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the system of internal control and risk management is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, by its nature, can only provide reasonable and not absolute assurance against material misstatement or loss.

The design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly extends to operational and compliance controls and risk management. The Board, through the Audit Committee, has prepared its own risk register which lists potential risks as summarised in the Strategic Report on pages 14 to 16. The Audit Committee considers the potential cause and possible effect of these risks as well as reviewing the controls in place to mitigate them.

Clear lines of accountability have been established between the Board and the Manager. The Audit Committee receives regular reports covering key performance and risk indicators and considers control and compliance issues brought to its attention. In carrying out its review, the Audit Committee has had regard to the activities of the abrdrn Group, including its internal audit and compliance functions, and the Independent Auditor.

The Audit Committee has reviewed the abrdrn Group's process for identifying and evaluating the significant risks faced by the Company and the policies and procedures by which these risks are managed. The Audit Committee has also reviewed the effectiveness of the abrdrn Group's system of internal control as it relates to the Company, including its annual internal controls report prepared in accordance with the International Auditing and Assurance Standards Board's International Standard on Assurance Engagements ("ISAE") 3402, "Assurance Reports on Controls at a Service Organization". Any weaknesses identified that may be relevant to the Company are reported to the Audit Committee and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Audit Committee.

The key components designed to provide effective internal control are outlined below:

- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers. These agreements are reviewed periodically by the Board;
- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- as a matter of course the abrdrn Group's internal audit and compliance departments continually review its operations;
- bi-annually, the Audit Committee carries out an assessment of internal controls by considering documentation from the abrdrn Group, including the internal audit and compliance functions and reports to the Board on its conclusions; and
- the Audit Committee reviews internal control reports provided by the Depositary.

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# Audit Committee's Report

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The Audit Committee has considered the need for an internal audit function. However, the Company has no employees and the day-to-day management of the Company's assets has been delegated to the abrdn Group which has its own compliance and internal control systems and internal audit department which provides reports to the Audit Committee for discussion. The Audit Committee has therefore decided to place reliance on those systems and internal audit procedures and has concluded that it is not necessary for the Company to have its own internal audit function.

### Financial Statements and Significant Matters

During its review of the Company's financial statements for the year ended 30 June 2023, the Audit Committee considered the following significant matters, in particular those communicated by the Independent Auditor during its planning and reporting of the year end audit:

#### Valuation, Existence and Ownership of Investments

How the matter was addressed - the Company uses the services of an independent depository (BNP Paribas Trust Corporation UK Limited) (the "Depository") to hold the assets of the Company. An annual internal control report is received from the Depository and reviewed by the Audit Committee. This provides details of the Depository's control environment. The investment portfolio is reconciled regularly by the Manager. The portfolio is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared quarterly and are considered at the quarterly meetings of the Board. The Audit Committee also considered the Independent Auditor's work and conclusions in this area.

The valuation of investments is undertaken in accordance with the accounting policies disclosed in note 2 (b) to the financial statements.

The Audit Committee satisfied itself that there were no issues associated with the valuation, existence and ownership of the investments which required to be addressed.

#### Recognition of Dividend Income

How the matter was addressed - the recognition of dividend income is undertaken in accordance with accounting policy note 2 (d) to the financial statements. Special dividends are allocated to the capital or revenue accounts according to the nature of the payment and the specific circumstances. Management accounts are reviewed by the Board on a quarterly basis and discussions take place with the Manager regarding the allocation of any special dividends that have been received. The Audit Committee also considered the Independent Auditor's work and conclusions in this area.

The Audit Committee concluded that there were no issues associated with the recognition of dividend income which required to be addressed.

#### Review of Financial Reporting

The Audit Committee, when considering the draft Annual Report and financial statements for the year ended 30 June 2023, concluded that, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy, and that a recommendation could be made to the Board for it to reach this conclusion. As part of its considerations, the Audit Committee assumed that the reader of the Annual Report and financial statements would have a reasonable knowledge of the investment industry in general and of investment trusts in particular.

#### Review of Independent Auditor

The Audit Committee has reviewed the effectiveness of the Independent Auditor, KPMG LLP ("KPMG"), including:

- Independence - the Independent Auditor discusses with the Audit Committee, at least annually, the steps it takes to ensure its independence and objectivity and makes the Audit Committee aware of any potential issues, explaining all relevant safeguards.
- Quality of audit work - including the ability to resolve issues in a timely manner (identified issues are satisfactorily and promptly resolved), its communications/presentation of outputs (the explanation of the audit plan, any deviations from it and the subsequent audit findings are comprehensive and comprehensible), and working relationship with management (the Independent Auditor has a constructive working relationship with the Manager). The Audit Committee also considers the findings in the FRC's annual quality inspection of KPMG.

- Quality of people – including continuity and succession plans (the audit team is made up of sufficient, suitably experienced staff with provision made for knowledge of the investment trust sector and retention on rotation of the audit partner).
- Fees – including current and proposed fees for future years.

The Independent Auditor’s report is included on pages 73 to 78. Details of the amounts paid to KPMG during the year for audit services are set out in note 5 to the financial statements.

**Tenure of the Independent Auditor**

KPMG was initially appointed as the Company’s Independent Auditor at the Annual General Meeting on 26 October 2017. In accordance with present professional guidelines the audit partner is rotated after no more than five years and the year ended 30 June 2023 is the first year for which the present audit director, Hannah Walsh, has served.

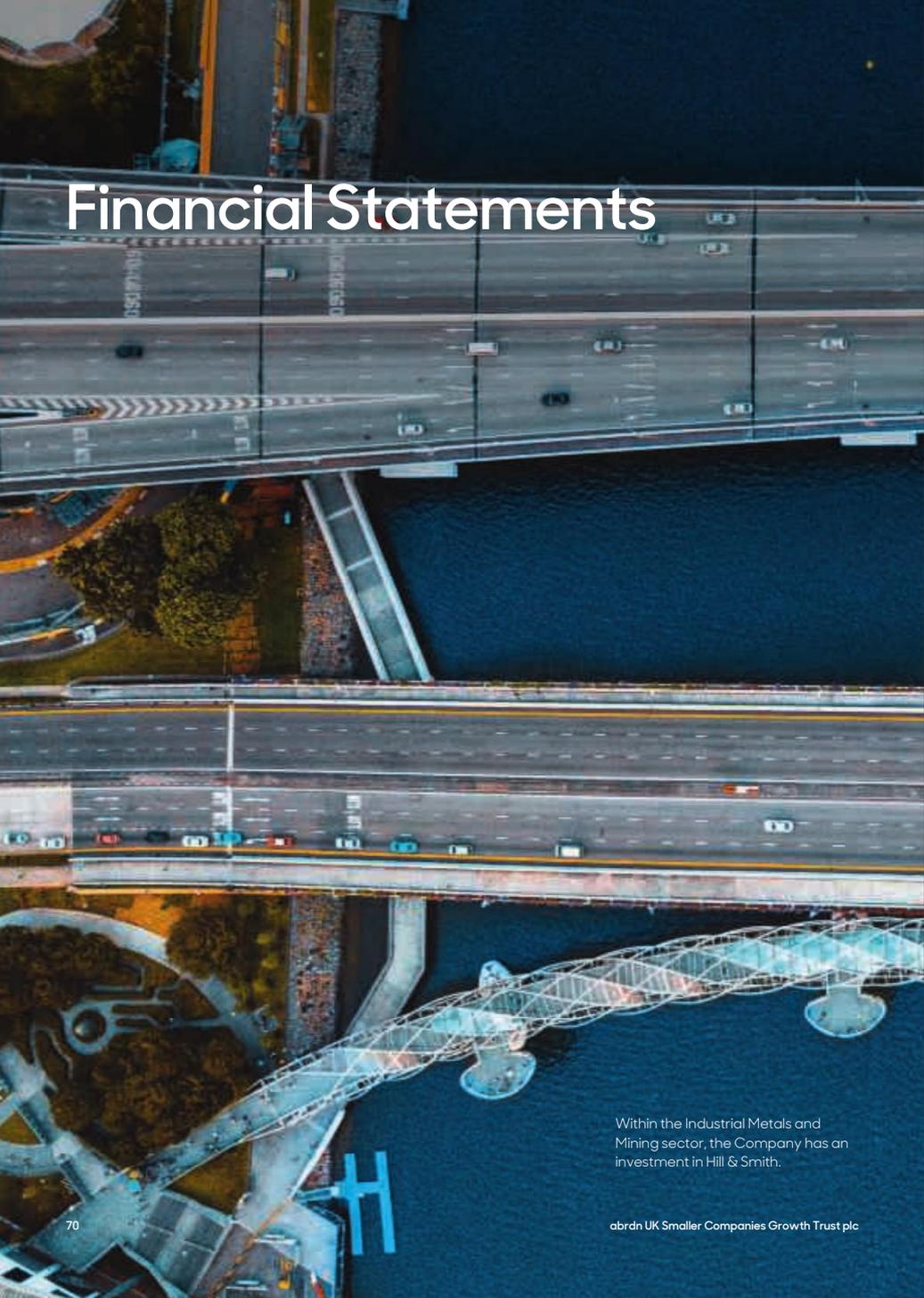
In compliance with the appropriate regulations, the next audit tender of the Company is due to take place by 2027.

The Audit Committee is satisfied with the quality of the work and service carried out by KPMG and with the level of fees. The Audit Committee is also satisfied that KPMG is independent and therefore supports the recommendation to the Board that the re-appointment of KPMG be put to shareholders for approval at the Annual General Meeting.

**On behalf of the Audit Committee**  
**Caroline Ramsay**  
 Chair of the Audit Committee  
 24 August 2023

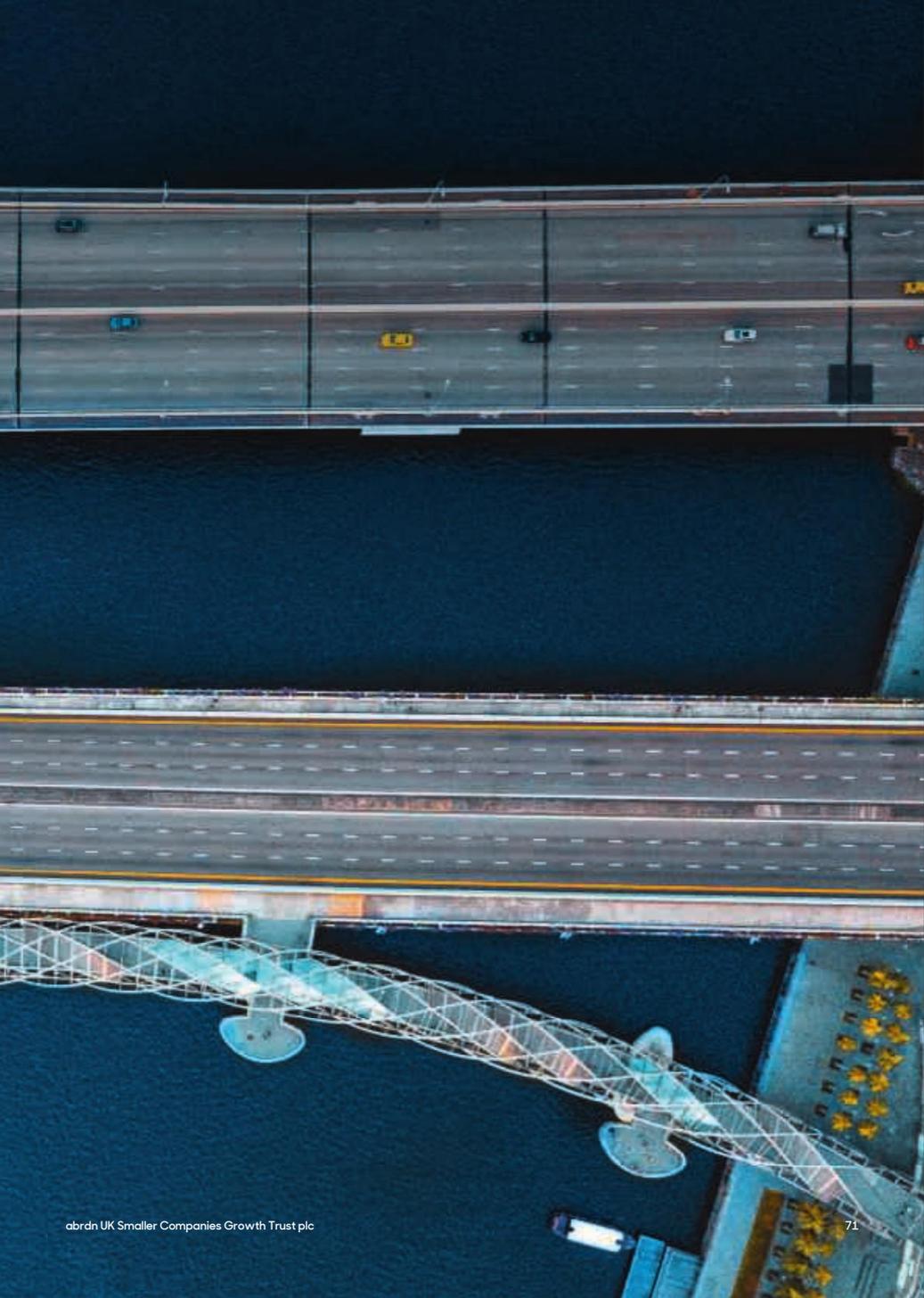
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# Financial Statements

An aerial photograph of a multi-lane highway bridge crossing a river. In the foreground, a modern cable-stayed bridge with a distinctive lattice structure is visible. The highway bridge has several lanes of traffic, and the river is dark blue. The overall scene is captured from a high angle, showing the infrastructure and surrounding landscape.

Within the Industrial Metals and Mining sector, the Company has an investment in Hill & Smith.

abrdn UK Smaller Companies Growth Trust plc



# Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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 UK Accounting Standards, including FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' and applicable law.

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and reliable;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

## Responsibility Statement of the Directors in Respect of the Annual Financial Report

The Directors confirm that to the best of their knowledge:

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

### On behalf of the Board

**Liz Airey**

Chairman

24 August 2023

# Independent Auditor's Report to the Members of abrdn UK Smaller Companies Growth Trust plc

## 1. Our Opinion is Unmodified

We have audited the financial statements of abrdn UK Smaller Companies Growth Trust plc (the "Company") for the year ended 30 June 2023 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2023 and of its return for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 26 October 2017. The period of total uninterrupted engagement is for the six financial years ended 30 June 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

**Materiality:** financial statements as a whole £4.5 million (2022: £5.4 million)  
1% (2022: 1%) of Total Assets

**Key audit matters** vs 2022

**Recurring risks** Carrying amount of quoted investments ◀▶

## 2. Key Audit Matters: Our Assessment of Risks of Material Misstatement

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

summarise below the key audit matter (unchanged from 2022), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

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# Independent Auditor's Report to the Members of abrdn UK Smaller Companies Growth Trust plc

Continued

	The risk	Our response
<p><b>Carrying amount of quoted investments</b> (£438.4 million; 2022: £524.1 million)</p> <p><i>Refer to page 68 (Audit Committee Report), page 83 (accounting policy) and page 90 (financial disclosures).</i></p>	<p><b>Low risk, high value</b></p> <p>The Company's portfolio of quoted investments makes up 96.5% (2022: 96.8%) of the Company's total assets by value and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>We performed the detailed tests below rather than seeking to rely on controls, because the nature of the balance is such that detailed testing is determined to be the most effective manner of obtaining audit evidence.</p> <p>Our procedures included:</p> <p><b>Tests of detail:</b> Agreed the valuation of 100% of quoted investments in the portfolio to externally quoted prices; and</p> <p><b>Enquiry of Custodians:</b> Agreed 100% of investment holdings in the portfolio to independently received third party confirmations from the investment custodians.</p> <p><b>Our results:</b> We found the carrying amount of quoted investments to be acceptable (2022: acceptable).</p>

### 3. Our Application of Materiality and an Overview of the Scope of our Audit

Materiality for the financial statements as a whole was set at £4.5 million (2022: £5.4 million), determined with reference to a benchmark of total assets, of which it represents 1% (2022: 1%).

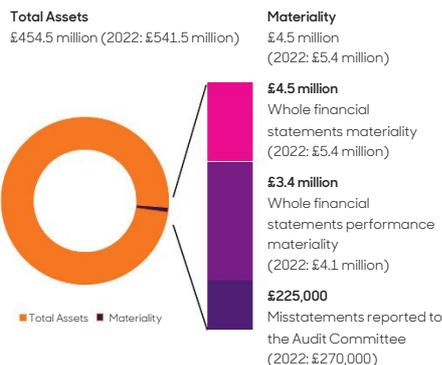
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2022: 75%) of materiality for the financial statements as a whole, which equates to £3.4 million (2022: £4.1 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £225,000 (2022: £270,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

The scope of the audit work performed was fully substantive as we did not rely upon the Company's internal control over financial reporting.



#### 4. Going Concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the 'going concern period').

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and its ability to operate over this period were:

- The impact of a significant reduction in the valuation of investments and implications for the Company's debt covenants;
- The liquidity of the investment portfolio and its ability to meet the liabilities of the Company as and when they fall due; and
- The operational resilience of key service organisations.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash and liquid investment position (and the results of a reverse stress test).

We considered whether the going concern disclosure in note 2 (a) to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period;

- we have nothing material to add or draw attention to in relation to the Directors' statement in note 2 (a) to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 (a) to be acceptable; and
- the related statement under the Listing Rules set out on page 58 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

#### 5. Fraud and Breaches of Laws and Regulations – Ability to Detect

##### Identifying and Responding to Risks of Material Misstatement due to Fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Assessing the segregation of duties in place between the Directors, the Administrator and the Investment Manager; and
- Reading Board and Audit Committee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

# Independent Auditor's Report to the Members of abrdrn UK Smaller Companies Growth Trust plc

## Continued

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries. We evaluated the design and implementation of the relevant controls over journal entries and other adjustments and made inquiries of the Administrator about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Based on the results of these procedures, we selected journal entries for testing, which included material post-closing journal entries.

On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue is non-judgemental and straightforward, with limited opportunity for manipulation. We did not identify any additional fraud risks.

### **Identifying and Responding to Risks of Material Misstatement due to Non-compliance with Laws and Regulations**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors, the Investment Manager and the Administrator (as required by auditing standards) and discussed with the Directors the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and its qualification as an Investment Trust under UK taxation legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: money laundering, data protection, bribery and corruption legislation and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and the Administrator and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### **Context of the Ability of the Audit to Detect Fraud or Breaches of Law or Regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## 6. We Have Nothing to Report on the Other Information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Disclosures of Emerging and Principal Risks and Longer-Term Viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on pages 18 and 19 that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;

- the principal risks and uncertainties disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on pages 18 and 19 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

### Corporate Governance Disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and

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# Independent Auditor's Report to the Members of abrdn UK Smaller Companies Growth Trust plc

## Continued

- the section of the Annual Report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

### 7. We Have Nothing to Report on the Other Matters on Which we are Required to Report by Exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### 8. Respective Responsibilities

#### Directors' Responsibilities

As explained more fully in their statement set out on page 72, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's Responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### 9. The Purpose of Our Audit Work and to Whom we Owe our Responsibilities

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

#### Hannah Walsh (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG  
24 August 2023

# Statement of Comprehensive Income

	Notes	Year ended 30 June 2023			Year ended 30 June 2022		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net losses on investments held at fair value	10	-	(46,435)	(46,435)	-	(196,773)	(196,773)
Income	3	13,649	-	13,649	11,123	-	11,123
Investment management fee	4	(848)	(2,542)	(3,390)	(1,190)	(3,569)	(4,759)
Other administrative expenses	5	(1,115)	-	(1,115)	(889)	-	(889)
<b>Net return before finance costs and taxation</b>		<b>11,686</b>	<b>(48,977)</b>	<b>(37,291)</b>	<b>9,044</b>	<b>(200,342)</b>	<b>(191,298)</b>
Finance costs	6	(315)	(945)	(1,260)	(278)	(833)	(1,111)
<b>Return before taxation</b>		<b>11,371</b>	<b>(49,922)</b>	<b>(38,551)</b>	<b>8,766</b>	<b>(201,175)</b>	<b>(192,409)</b>
Taxation	7	-	-	-	-	-	-
<b>Return after taxation</b>		<b>11,371</b>	<b>(49,922)</b>	<b>(38,551)</b>	<b>8,766</b>	<b>(201,175)</b>	<b>(192,409)</b>
<b>Return per Ordinary share (pence)</b>	9	<b>12.44</b>	<b>(54.63)</b>	<b>(42.19)</b>	<b>9.07</b>	<b>(208.10)</b>	<b>(199.03)</b>

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

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

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

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# Statement of Financial Position

	Notes	As at 30 June 2023 £'000	As at 30 June 2022 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	10	438,408	524,137
<b>Current assets</b>			
Debtors	11	1,637	2,413
Investments in AAA-rated money market funds		14,129	14,414
Cash and short term deposits		294	582
		16,060	17,409
<b>Current liabilities</b>			
Creditors: other amounts falling due within one year	12	(2,943)	(2,947)
Bank loan	12	(24,938)	(39,988)
		(27,881)	(42,935)
<b>Net current liabilities</b>		<b>(11,821)</b>	<b>(25,526)</b>
<b>Total assets less current liabilities</b>		<b>426,587</b>	<b>498,611</b>
<b>Net assets</b>		<b>426,587</b>	<b>498,611</b>
<b>Capital and reserves</b>			
Called-up share capital	13	26,041	26,041
Share premium account		170,146	170,146
Capital reserve	14	217,927	293,616
Revenue reserve		12,473	8,808
<b>Equity shareholders' funds</b>		<b>426,587</b>	<b>498,611</b>
<b>Net asset value per Ordinary share (pence)</b>	15	<b>482.95</b>	530.37

The financial statements on pages 79 to 100 were approved by the Board of Directors on 24 August 2023 and were signed on its behalf by:

**Liz Airey**  
Chairman

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

# Statement of Changes in Equity

## For the year ended 30 June 2023

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2022	26,041	170,146	293,616	8,808	498,611
Return after taxation	-	-	(49,922)	11,371	(38,551)
Buyback of Ordinary shares into Treasury (see note 13)	-	-	(25,767)	-	(25,767)
Dividends paid (see note 8)	-	-	-	(7,706)	(7,706)
<b>Balance at 30 June 2023</b>	<b>26,041</b>	<b>170,146</b>	<b>217,927</b>	<b>12,473</b>	<b>426,587</b>

## For the year ended 30 June 2022

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2021	26,041	170,146	20,132	504,395	7,532	728,246
Return after taxation	-	-	-	(201,175)	8,766	(192,409)
Buyback of Ordinary shares into Treasury (see note 13)	-	-	(20,132)	(9,604)	-	(29,736)
Dividends paid (see note 8)	-	-	-	-	(7,490)	(7,490)
<b>Balance at 30 June 2022</b>	<b>26,041</b>	<b>170,146</b>	<b>-</b>	<b>293,616</b>	<b>8,808</b>	<b>498,611</b>

The capital reserve at 30 June 2023 is split between realised of £169,058,000 and unrealised of £48,869,000 (30 June 2022 - realised £198,874,000 and unrealised £94,742,000).

The Company's reserves available to be distributed by way of dividends or buybacks which includes the revenue reserve and the realised element of the capital reserve amount to £181,531,000 (30 June 2022 - £207,682,000).

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

# Statement of Cash Flows

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
<b>Operating activities</b>		
Net return before taxation	(38,551)	(192,409)
<i>Adjustment for:</i>		
Losses on investments	46,435	196,773
Decrease/(increase) in accrued dividend income	772	(792)
Finance costs	1,260	1,111
Decrease/(increase) in other debtors	3	(2)
(Decrease)/increase in other creditors	(304)	920
<b>Net cash inflow from operating activities</b>	<b>9,615</b>	<b>5,601</b>
<b>Investing activities</b>		
Purchases of investments	(83,777)	(94,258)
Sales of investments	122,718	144,236
Purchases of AAA-rated money market funds	(91,974)	(137,040)
Sales of AAA-rated money market funds	92,259	145,262
<b>Net cash inflow from investing activities</b>	<b>39,226</b>	<b>58,200</b>
<b>Financing activities</b>		
Bank and loan interest paid	(1,193)	(1,088)
Repurchase of Ordinary shares into Treasury	(25,230)	(29,736)
Repayment of loan	(15,000)	(25,000)
Equity dividends paid	(7,706)	(7,490)
<b>Net cash outflow from financing activities</b>	<b>(49,129)</b>	<b>(63,314)</b>
<b>(Decrease)/increase in cash</b>	<b>(288)</b>	<b>487</b>
<b>Analysis of changes in cash during the year</b>		
Opening balance	582	95
(Decrease)/increase in cash as above	(288)	487
<b>Closing balance</b>	<b>294</b>	<b>582</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2023

## 1. Principal activity

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

## 2. Accounting policies

- a) **Basis of accounting and going concern.** The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in July 2022. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

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

As at 30 June 2023, the Company had a debt with The Royal Bank of Scotland International Limited. This consists of a five year revolving credit facility of £40 million of which £25 million is being utilised. The Board has reviewed its options and a range of proposals and is expecting to refinance the facility when it expires. However, in the event that the facility is not refinanced, there is considered to be sufficient portfolio liquidity to enable borrowings to be repaid.

The Directors are mindful of the Principal and Emerging Risks and Uncertainties disclosed in the Strategic Report on pages 14 to 16 and they believe that the Company has adequate financial resources to continue its operational existence for a period of not less than 12 months from the date of approval of this Report. They have arrived at this conclusion having confirmed that the Company's diversified portfolio of realisable securities is sufficiently liquid and could be used to meet short-term funding requirements were they to arise. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Statement of Financial Position as at 30 June 2023 which shows net current liabilities of £11.8 million at that date. Taking all of this into account, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

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

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

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

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

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- c) **AAA-rated money market funds.** The AAA money market funds are used by the Company to provide additional short term liquidity. Due to their short term nature, they are recognised in the Financial Statements as a current asset and are included at fair value through profit and loss.
- d) **Income.** Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to revenue or capital in the Statement of Comprehensive Income, according to the circumstances of the underlying payment. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short-term deposits and money market funds is accounted for on an accruals basis.
- e) **Expenses and interest payable.** Expenses are accounted for on an accruals basis. Expenses are charged to the capital column of the Statement of Comprehensive Income when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated 25% to revenue and 75% to the capital columns of the Statement of Comprehensive Income in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see notes 4 and 6).

Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Statement of Comprehensive Income.

- f) **Dividends payable.** Dividends are recognised in the period in which they are paid.

g) **Nature and purpose of reserves**

**Called-up share capital.** The Ordinary share capital on the Statement of Financial Position relates to the number of shares in issue and in treasury. Only when the shares are cancelled, either from treasury or directly, is a transfer made to the capital redemption reserve. This reserve is not distributable.

**Share premium account.** The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising Ordinary shares of 25p. This reserve is not distributable.

**Special reserve.** The special reserve arose following court approval for the cancellation of the share premium account balance at 24 June 1999 and on 13 October 2009. Court of Session approval was granted for the cancellation of the Company's entire share premium account and capital redemption reserve and subsequent creation of a special distributable capital reserve. The special reserve is used to fund share purchases of its own Ordinary shares by the Company and was fully utilised during the year ended 30 June 2022.

**Capital reserve.** Gains or losses on disposal of investments and changes in fair values of investments are transferred to the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this reserve. The part of this reserve represented by realised capital gains is available for distribution by way of share buybacks and dividends.

**Revenue reserve.** Income and expenses which are recognised in the revenue column of the Statement of Comprehensive Income are transferred to the revenue reserve. The revenue reserve is available for distribution including by way of dividend.

- h) **Taxation.** Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the year end date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the year end date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.

Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

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

# Notes to the Financial Statements

Continued

## 3. Income

	2023 £'000	2022 £'000
<b>Income from investments</b>		
UK dividend income	10,706	9,139
Property income distributions	431	734
Overseas dividend income	1,043	1,034
Special dividends	943	166
	<b>13,123</b>	<b>11,073</b>
<b>Other income</b>		
Interest from AAA-rated money market funds	516	50
Bank interest	10	-
<b>Total income</b>	<b>13,649</b>	<b>11,123</b>

## 4. Investment management fee

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Investment management fee</b>	<b>848</b>	<b>2,542</b>	<b>3,390</b>	<b>1,190</b>	<b>3,569</b>	<b>4,759</b>

The balance due to abrdn Fund Managers Limited ("aFML") at the year end in respect of investment management fees was £1,667,000 (2022 – £2,083,000). For further details see the Directors' Report on page 51 and note 20 on page 99.

## 5. Administrative expenses (inclusive of VAT)

	2023 £'000	2022 £'000
Secretarial fees <sup>A</sup>	90	90
Promotional activities <sup>A</sup>	362	295
Directors' fees	154	145
Auditor's remuneration:		
- fees payable to the Company's Independent Auditor for the audit of the annual accounts (excluding VAT)	60	40
- VAT on audit fees	12	8
Registrar's fees	27	27
Professional fees	89	12
Custody fees	28	32
Depository fees	56	79
Other expenses	237	161
	<b>1,115</b>	<b>889</b>

<sup>A</sup> The Company has an agreement with aFML for the provision of secretarial services and promotional activities. Secretarial fees payable during the year, inclusive of VAT, were £90,000 (2022 - £90,000) and the amount due to aFML at the year end was £90,000 (2022 - £45,000). Costs relating to promotional activities during the year, inclusive of VAT, were £362,000 (2022 - £295,000) and the amount due to aFML at the year end was £132,000 (2022 - £115,000).

## 6. Finance costs

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loan interest	282	846	1,128	258	774	1,032
Non-utilisation fees	25	76	101	11	31	42
Amortisation of loan arrangement expenses	8	23	31	9	28	37
	<b>315</b>	<b>945</b>	<b>1,260</b>	<b>278</b>	<b>833</b>	<b>1,111</b>

# Notes to the Financial Statements

## Continued

### 7. Taxation

#### (a) Analysis of charge for year

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Tax charge</b>	-	-	-	-	-	-

Given the Company's continued investment trust status and there being no taxable income generated from its operations, no tax has been paid in the year (2022 – same).

(b) Provision for deferred taxation. At 30 June 2023, the Company had unutilised management expenses and loan relationship losses of £80,344,000 (2022 – £75,537,000). A deferred tax asset has not been recognised on the unutilised management expenses and loan relationship losses as it is unlikely there will be suitable future taxable profits against which these tax losses could be deducted. Therefore, it is unlikely that the Company will generate future taxable revenue that would enable the existing tax losses to be utilised.

(c) Factors affecting the tax charge for the year. The main rate of UK corporation tax increased from 19% to 25% from 1 April 2023. The tax charge for the year is higher (2022 – higher) than the standard rate of UK corporation tax for the period of 20.5% (2022 – 19%). The differences are explained in the following table:

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return before taxation	11,371	(49,922)	(38,551)	8,766	(201,175)	(192,409)
Corporation tax at an effective rate of 20.50% (2022 – 19%)	2,331	(10,234)	(7,903)	1,666	(38,223)	(36,557)
Effects of:						
Non-taxable UK dividend income	(2,388)	-	(2,388)	(1,768)	-	(1,768)
Non-taxable overseas dividend income	(214)	-	(214)	(196)	-	(196)
Management expenses and loan relationship losses not utilised	271	715	986	298	836	1,134
Non-taxable losses on investments	-	9,519	9,519	-	37,387	37,387
<b>Total tax charge</b>	-	-	-	-	-	-

## 8. Dividends

	2023 £'000	2022 £'000
Amounts recognised as distributions to equity holders in the period:		
2022 final dividend of 5.40p per share (2021 – 5.00p) paid on 28 October 2022	5,000	4,885
2023 interim dividend of 3.00p per share (2022 – 2.70p) paid on 14 April 2023	2,706	2,605
	<b>7,706</b>	7,490

The proposed 2023 final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements.

Set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 1158–1159 of the Corporation Taxes Act 2010 are considered. The net revenue available for distribution by way of dividend for the year is £11,371,000 (2022 – £8,766,000).

	2023 £'000	2022 £'000
Interim dividend 2023 of 3.00p per share (2022 – 2.70p) paid on 14 April 2023	2,706	2,605
Proposed final dividend 2023 of 8.00p per share (2022 – 5.40p) payable on 30 November 2023	6,907	5,000
	<b>9,613</b>	7,605

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as the date of approval of this Report, 24 August 2023, which satisfies the requirement of Section 1159 of the Corporation Tax Act 2010.

## 9. Return per Ordinary share

	2023		2022	
	p	£000	p	£000
<b>Basic</b>				
Revenue return	12.44	11,371	9.07	8,766
Capital return	(54.63)	(49,922)	(208.10)	(201,175)
<b>Total return</b>	<b>(42.19)</b>	<b>(38,551)</b>	<b>(199.03)</b>	<b>(192,409)</b>
<b>Weighted average number of Ordinary shares in issue</b>		<b>91,387,673</b>		96,670,077

# Notes to the Financial Statements

## Continued

### 10. Investments held at fair value through profit or loss

	2023 £'000	2022 £'000
Opening book cost	429,395	444,749
Opening investment holdings gains	94,742	325,254
<b>Opening fair value</b>	<b>524,137</b>	<b>770,003</b>
Additions at cost	83,423	94,523
Disposals - proceeds	(122,717)	(143,616)
Losses on investments	(46,435)	(196,773)
<b>Closing fair value</b>	<b>438,408</b>	<b>524,137</b>

	2023 £'000	2022 £'000
Closing book cost	389,539	429,395
Closing investment holding gains	48,869	94,742
<b>Closing fair value</b>	<b>438,408</b>	<b>524,137</b>

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

The Company received £122,717,000 (2022 - £143,616,000) from investments sold in the period. The book cost of these investments when they were purchased was £123,279,000 (2022 - £109,878,000). 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 on investments in the Statement of Comprehensive Income. The total costs were as follows:

	2023 £'000	2022 £'000
Purchases	235	259
Sales	94	110
	329	369

## 11. Debtors

	2023 £'000	2022 £'000
Amounts due from brokers	10	11
Dividends receivable	1,608	2,380
Other debtors	19	22
	<b>1,637</b>	<b>2,413</b>

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

	2023 £'000	2022 £'000
Amounts payable to brokers	31	385
Amounts payable in relation to share buybacks	537	-
Interest payable	225	108
Investment management fee payable	1,667	2,083
Sundry creditors	483	371
	<b>2,943</b>	<b>2,947</b>

	2023 £'000	2022 £'000
<b>Bank loan</b>		
Bank loan	25,000	40,000
Unamortised loan arrangement expenses	(62)	(12)
	<b>24,938</b>	<b>39,988</b>

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

On 3 October 2022 the £15 million drawn down from the RCF was repaid and on 1 November the £25 million term loan was repaid from a new RCF of £40 million, provided by RBSI, which expires on 1 November 2025. At 30 June 2023, the Company had drawn down £25 million from the RCF at an interest rate of 5.477% with a maturity date of 2 August 2023. At the date of this Report, the Company had drawn down £25 million at an interest rate of 6.231%.

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

# Notes to the Financial Statements

## Continued

### 13. Called-up share capital

	2023		2022	
	Number	£'000	Number	£'000
<b>Authorised</b>	<b>150,000,000</b>	<b>37,500</b>	150,000,000	37,500
<b>Issued and fully paid:</b>				
Ordinary shares of 25p each	<b>88,329,911</b>	<b>22,082</b>	94,012,047	23,503
Held in treasury:	<b>15,834,511</b>	<b>3,959</b>	10,152,375	2,538
	<b>104,164,422</b>	<b>26,041</b>	104,164,422	26,041
		<b>Ordinary shares Number</b>	<b>Treasury shares Number</b>	<b>Total Number</b>
Opening balance		94,012,047	10,152,375	104,164,422
Share buybacks		(5,682,136)	5,682,136	-
<b>Closing balance</b>		<b>88,329,911</b>	<b>15,834,511</b>	<b>104,164,422</b>

During the year the Company repurchased 5,682,136 (2022 - 4,670,519) Ordinary shares to treasury at a cost of £25,767,000 (2022 - £29,736,000).

### 14. Capital reserve

	2023 £'000	2022 £'000
Opening balance	<b>293,616</b>	504,395
Unrealised losses on investment holdings	<b>(45,873)</b>	(230,512)
(Loss)/gains on realisation of investments at fair value	<b>(562)</b>	33,739
Management fee charged to capital	<b>(2,542)</b>	(3,569)
Finance costs charged to capital	<b>(945)</b>	(833)
Buyback of Ordinary shares into treasury	<b>(25,767)</b>	(9,604)
<b>Closing balance</b>	<b>217,927</b>	293,616

The capital reserve includes investment holding gains amounting to £48,869,000 (2022 - gains of £94,742,000) as disclosed in note 10 on page 90.

## 15. Net asset value per share

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

	2023	2022
Net assets attributable (£'000)	426,587	498,611
Number of Ordinary shares in issue at year end <sup>4</sup>	88,329,911	94,012,047
Net asset value per share	482.95p	530.37p

<sup>4</sup> Excluding shares held in treasury.

## 16. Financial instruments

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

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

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

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

### Interest rate risk

Interest rate movements may affect:

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

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

As at 30 June 2023, the Company had drawn down £25 million (2022 – £40 million) from the £40 million revolving credit facility with The Royal Bank of Scotland International Limited. During the year the £25 million term loan with The Royal Bank of Scotland International Limited was repaid.

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

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
<b>As at 30 June 2023</b>				
<i>Assets</i>				
Investments in AAA-rated money market funds	-	4.92	-	14,129
Cash deposits	-	3.93	-	294
<b>Total assets</b>	-	-	-	14,423
<i>Liabilities</i>				
Bank loan	0.09	5.48	25,000	-
<b>Total liabilities</b>	-	-	25,000	-
<b>As at 30 June 2022</b>				
<i>Assets</i>				
Investments in AAA-rated money market funds	-	1.17	-	14,414
Cash deposits	-	-	-	582
<b>Total assets</b>	-	-	-	14,996
<i>Liabilities</i>				
Bank loan	0.33	2.35	25,000	-
Bank loan	0.08	2.09	15,000	-
<b>Total liabilities</b>	-	-	40,000	-

The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

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

All financial liabilities are measured at amortised cost.

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

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's result for the year ended 30 June 2023 and net assets would increase/decrease by £144,000 (2022 – increase/decrease by £150,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and money market funds.

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

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process, as detailed on pages 33 to 35, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are mainly listed on the London Stock Exchange.

**Other price risk sensitivity.** If market prices at the year end date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary Shareholders for the year ended 30 June 2023 would have increased/decreased by £43,841,000 (2022 – increase/decrease of £52,414,000). This is based on the Company's equity portfolio held at each year end.

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

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities and AAA-rated money market funds, which can be sold to meet funding commitments if necessary. Subject to compliance with the terms of the revolving credit facility, including relevant covenant compliance, the Company has the ability to make future loan drawdowns during the period until the expiry of the facility on 1 November 2025. The maturity of the Company's existing borrowings is set out in the credit risk profile section of this note.

	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
<b>As at 30 June 2023</b>				
Bank loan	25,124	25,124	-	-

	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
<b>As at 30 June 2022</b>				
Bank loan	40,318	15,170	25,148	-

# Notes to the Financial Statements

## Continued

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

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

- investment transactions are carried out with a number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, both stock and cash reconciliations to the Custodians' records are performed on a daily basis to ensure discrepancies are investigated on a timely basis.
- cash is held only with reputable banks with high quality external credit enhancements.

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

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

	2023		2022	
	Statement of Financial Position £'000	Maximum exposure £'000	Statement of Financial Position £'000	Maximum exposure £'000
<b>Current assets</b>				
Debtors	10	10	11	11
Investments in AAA-rated money markets funds	14,129	14,129	14,414	14,414
Cash and short term deposits	294	294	582	582
	<b>14,433</b>	<b>14,433</b>	15,007	15,007

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

## 17. Analysis of changes in net debt

	At 30 June 2022 £'000	Cash flows £'000	Non-cash movements £'000	At 30 June 2023 £'000
Cash and cash equivalents	582	(288)	-	294
Investments in AAA-rated money market funds	14,414	(285)	-	14,129
Debt due in less than one year	(39,988)	15,080	(30)	(24,938)
	(24,992)	14,507	(30)	(10,515)

	At 30 June 2021 £'000	Cash flows £'000	Non-cash movements £'000	At 30 June 2022 £'000
Cash and cash equivalents	95	487	-	582
Investments in AAA-rated money market funds	22,636	(8,222)	-	14,414
Debt due in less than one year	(40,000)	25,000	(24,988)	(39,988)
Debt due after more than one year	(24,951)	-	24,951	-
	(42,220)	17,265	(37)	(24,992)

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

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### 18. Capital management

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

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

The Company's capital comprises the following:

	2023 £'000	2022 £'000
<b>Equity</b>		
Equity share capital	26,041	26,041
Reserves	400,546	472,570
<b>Liabilities</b>		
Bank loan	24,938	39,988
	451,525	538,599

The Company's net gearing comprises the following:

	2023 £'000	2022 £'000
<b>Bank loans</b>	(24,938)	(39,988)
Cash and investments in AAA-rated money market funds	14,423	14,996
Amounts due from brokers	10	11
Amounts payable to brokers	(31)	(385)
<b>Net gearing (borrowings less cash and money market fund investments)</b>	(10,536)	(25,366)
<b>Net assets</b>	426,587	498,611
<b>Net gearing (%)</b>	2.5	5.1

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

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

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

The Company does not have any externally imposed capital requirements.

## 19. Fair value hierarchy

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

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

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

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

All of the Company's investments are in quoted equities (2022 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (2023 – £438,408,000; 2022 – £524,137,000) have therefore been deemed as Level 1.

The investment in AAA rated money market funds of £14,129,000 (2022 – £14,414,000) is considered to be Level 2 under the fair value hierarchy of FRS 102 due to not trading in an active market.

The fair value of the £25 million revolving credit facility loan as at the 30 June 2023 is £25,000,000, due to it being short-term in nature, with a par value per Statement of Financial Position of £24,938,000. Under the fair value hierarchy in accordance with FRS 102, these borrowings can be classified at Level 2.

## 20. Transactions with the Manager

The Company has an agreement with abrdn Fund Managers Limited for the provision of management services. The management fee is calculated and payable quarterly in arrears at a rate of 0.85% per annum on the first £250 million of net assets, 0.65% per annum on net assets between £250 million and £550 million and 0.55% on net assets above £550 million.

The Manager also receives a separate fee for the provision of secretarial services and promotional activities as disclosed in note 5 on page 87.

## 21. Related party transactions

The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on page 64. The Directors' shareholdings are detailed on page 65.

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## 22. Subsequent events

Subsequent to the year end, a further 1,995,572 Ordinary shares were repurchased to treasury at a cost of £8,413,000.

As noted in the Chairman's Statement on page 9, with effect from 1 July 2023 the management fee will be calculated and payable quarterly in arrears at a rate of 0.75% per annum on the first £175 million of net assets, 0.65% per annum on net assets between £175 million and £550 million and 0.55% on net assets above £550 million and it has also been agreed that the Manager would not charge the Company for the provision of secretarial services with effect from 1 January 2024.

# Alternative Performance Measures

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

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

## Discount

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

	30 June 2023	30 June 2022
Share price	414.00p	453.00p
Net Asset Value per share	482.95p	530.37p
Discount	14.3%	14.6%

## Net gearing

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

	30 June 2023 £'000	30 June 2022 £'000
<b>Total borrowings<sup>A</sup></b>	<b>(24,938)</b>	<b>(39,988)</b>
Cash and short term deposits	294	582
Investments in AAA-rated money market funds	14,129	14,414
Amounts due from brokers	10	11
Amounts payable to brokers	(31)	(385)
<b>Total cash and money market fund investments<sup>B</sup></b>	<b>14,402</b>	<b>14,622</b>
<b>Net gearing (borrowings less cash and money market fund investments)<sup>C-A+B</sup></b>	<b>(10,536)</b>	<b>(25,366)</b>
Shareholders' funds <sup>D</sup>	426,587	498,611
<b>Net gearing<sup>C/D</sup></b>	<b>2.5%</b>	<b>5.1%</b>

# Alternative Performance Measures

## Continued

### Ongoing charges ratio

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

	30 June 2023	30 June 2022
	£'000	£'000
Investment management fee <sup>A</sup>	3,390	4,759
Administrative expenses <sup>B</sup>	1,115	889
Less: non-recurring charges <sup>C</sup>	(40)	(6)
<b>Ongoing charges</b>	<b>4,465</b>	<b>5,642</b>
<b>Average daily net assets</b>	<b>471,984</b>	<b>696,750</b>
<b>Ongoing charges ratio (excluding look-through costs)</b>	<b>0.95%</b>	<b>0.81%</b>
<b>Look-through costs<sup>D</sup></b>	<b>-</b>	<b>0.01%</b>
<b>Ongoing charges ratio (including look-through costs)</b>	<b>0.95%</b>	<b>0.82%</b>

<sup>A</sup> See note 4 on page 86.

<sup>B</sup> See note 5 on page 87.

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

<sup>D</sup> Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

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

## Total return

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

NAV total return		
Year ended 30 June 2023	2023	2022
Opening NAV	530.37p	737.97p
Closing NAV	482.95p	530.37p
Decrease in NAV	-47.42p	-207.60p
% Decrease in NAV	-8.9%	-28.1%
Uplift from reinvestment of dividends <sup>A</sup>	1.5%	0.8%
NAV total return decrease	-7.4%	-27.3%

<sup>A</sup> The uplift from reinvestment of dividends assumes that the dividends of 5.4p in October 2022 and 3.0p in April 2023 (5.0p and 2.7p in 2021/22) paid by the Company were reinvested in the NAV of the Company on the ex-dividend date.

Share price total return		
Year ended 30 June 2023	2023	2022
Opening share price	453.00p	698.00p
Closing share price	414.00p	453.00p
Decrease in share price	-39.00p	-245.00p
% Decrease in share price	-8.6%	-35.1%
Uplift from reinvestment of dividends <sup>A</sup>	1.8%	0.8%
Share price total return decrease	-6.8%	-34.3%

<sup>A</sup> The uplift from reinvestment of dividends assumes that the dividends of 5.4p in October 2022 and 3.0p in April 2023 (5.0p and 2.7p in 2021/22) paid by the Company were reinvested in the shares of the Company on the ex-dividend date.

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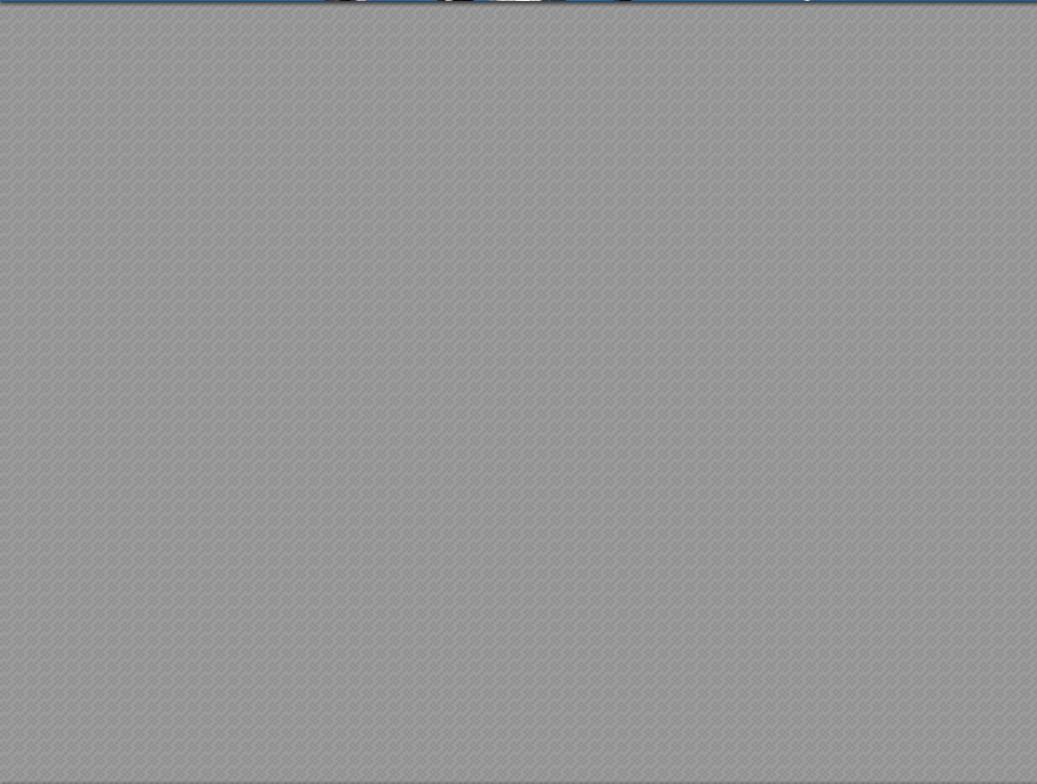
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# Corporate Information

The Company was incorporated in 1993 and has been managed by abrdn since August 2003.

Investments in the Telecommunications Service Providers sector include Telecom Plus and Gamma Communications.



# Information about the Investment Manager

## abr dn

The Company's Investment Manager is abr dn Investment Management Limited which is a wholly-owned subsidiary of abr dn plc. The group's assets under management and administration were £496 billion as at 30 June 2023, managed for a range of clients including 19 UK-listed closed end investment companies.

## The Investment Team Senior Managers



### Abby Glennie

Deputy Head, Smaller Companies  
Lead Manager of the Company

Abby Glennie is Deputy Head of the Smaller Companies Team at abr dn having been appointed to this role in March 2020. She is lead manager of the UK small and mid-cap funds. She was appointed as Co-Manager of the Company in November 2020 and Lead Manager in January 2023.

Abby joined abr dn in February 2013 as a member of the UK Equity Team, before transferring to the Smaller Companies Team in January 2016. Prior to this she worked at Kames Capital (previously Aegon Asset Management) as a Graduate Trainee Investment Manager.

Abby has an MA (First Class Hons) degree in Economics and Finance from the University of Aberdeen and is a CFA.



### Amanda Yeaman

Investment Director, Smaller Companies  
Deputy Manager of the Company

Amanda Yeaman is an Investment Director in the Smaller Companies Team at abr dn, providing research support, predominantly for the UK Smaller Companies strategy within abr dn, but also to the wider Smaller Companies Team. She was appointed as Deputy Manager of the Company in January 2023.

Amanda joined abr dn in 2019 from Investec, where she was a small and mid-cap equity sales specialist.

Amanda has an MA (Hons) degree in Economics and Accountancy from the University of Edinburgh and has the IMC.

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# Investor Information

## Alternative Investment Fund Managers Directive ("AIFMD") and Pre-Investment Disclosure Document ("PIDD")

The Company has appointed abrdn Fund Managers Limited as its Alternative Investment Fund Manager and BNP Paribas Trust Corporation UK Limited as its Depository under the AIFMD.

The AIFMD requires abrdn Fund Managers Limited, as the Company's AIFM, to make available to investors certain information prior to such investors' investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk). The periodic disclosures required to be made by the AIFM under the AIFMD are set out on page 114.

## Investor Warning: Be alert to share fraud and boiler room scams

abrdn has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment company shares, purporting to work for abrdn or for third party firms. abrdn has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for abrdn and any third party making such offers/claims has no link with abrdn.

abrdn does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams at: [fca.org.uk/consumers/scams](http://fca.org.uk/consumers/scams).

## Shareholder Enquiries

For queries regarding shareholdings, lost certificates, dividend payments, registered details and related matters, shareholders holding their shares directly in the Company are advised to contact the Registrar (see Contact Addresses). Changes of address must be notified to the Registrar in writing.

Any general queries about the Company should be directed to the Company Secretary in writing (see Contact Addresses) or by email to: [CEF.CoSec@abrdn.com](mailto:CEF.CoSec@abrdn.com).

## abrdn Investment Trust Savings Plans (the "Plans")

In June 2023, abrdn notified existing investors in the abrdn Investment Trust ISA, Share Plan and Investment Plan for Children that these plans will be closing in December 2023. The Plans are no longer open to new investors.

If you are an existing investor in the Plans and have any queries, please contact our Investor Services department on **0808 500 4000** or **+44 1268 448 222** from overseas. We are open 9.00am to 5.00pm Monday to Friday. Call charges will vary. Alternatively, please contact us by email at: [inv.trusts@abrdn.com](mailto:inv.trusts@abrdn.com). Email is not a secure form of communication so you should not send any personal or sensitive information.

## How to Invest

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser.

Alternatively, for private investors, there are a number of online dealing platforms that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms.

## Discretionary Private Client Stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management and Financial Advice Association at: [pimfa.co.uk](http://pimfa.co.uk).

## Financial Advisers

To find an adviser who recommends on investment trusts, visit: [unbiased.co.uk](http://unbiased.co.uk).

## Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority at: [fca.org.uk/firms/financial-services-register](http://fca.org.uk/firms/financial-services-register).

## How to Attend and Vote at Company Meetings

Investors who hold their shares through a platform or share plan provider (for example Hargreaves Lansdown, Interactive Investor or AJ Bell) and would like to attend and vote at Company meetings (including AGMs) should contact their platform or share plan provider directly to make arrangements.

Investors who hold their shares through platforms and have their shares held through platform nominees, may not necessarily receive notification of general meetings and are advised to keep themselves informed of Company business by referring to the Company's website. Where voting is required, and the Board encourages shareholders to vote at all general meetings of the Company, shareholders with their holdings in nominees will need to instruct the nominee to vote on their behalf and should do so in good time before the meetings.

## Keeping You Informed

Information about the Company can be found on its website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk), including share price and performance data as well as London Stock Exchange announcements, current and historic Annual and Half-Yearly Reports, and the latest monthly factsheet on the Company issued by the Manager. **Investors can receive updates via email by registering on the home page of the website.**

The Company's Ordinary share price appears under the heading 'Investment Companies' in the Financial Times.

Details are also available at: [invtrusts.co.uk](http://invtrusts.co.uk).

Twitter:

[@abrdnTrusts](https://twitter.com/abrdnTrusts)

LinkedIn:

[abrdn Investment Trusts](https://www.linkedin.com/company/abrdn-investment-trusts)

## Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Company's website.

## Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking long-term capital growth by investment in UK-quoted smaller companies, and who understand and are willing to accept the risks of exposure to equities.

Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that its securities can be recommended by a financial adviser to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream pooled investments ("NMPIs") and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the Financial Conduct Authority's restrictions which apply to NMPIs because they are securities issued by an investment trust.

## Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trust shares purchased will immediately be reduced by the difference between the buying and selling prices of the shares, known as the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

*The information on pages 106 to 107 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by abrdn Investments Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

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# Glossary of Terms

## **abrdrn Group or abrdrn**

The abrdrn plc group of companies.

## **AIC**

The Association of Investment Companies.

## **AIFMD**

The UK version of the Alternative Investment Fund Managers Directive and all implementing and delegating legislation thereunder, as it forms part of UK law following the UK's departure from the EU. The AIFMD was originally European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ('AIFs'). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU (and, now separately, the UK). The Company has been designated as an AIF.

## **Alternative Performance Measures or APMs**

Numerical measures of the Company's current, historical or future performance, financial position, other than the financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS102 and the AIC SORP.

## **Blue Sky Company**

A company without a proven business track record as defined by revenues and profitability, where the value of the company is based on an idea without a tangible operating model to back it up. Most often these are found in the technology, biotech or resources sectors.

## **Capital Return per Share**

The realised and unrealised gains and losses of the investment portfolio net of costs, interest and tax of the Company that have been allocated to capital, divided by the weighted average number of shares in issue during the year.

## **Closed-End Fund**

A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.

## **Depository**

A depository is responsible for cash monitoring, the custody and safeguarding of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements. The Company's Depository is BNP Paribas Trust Corporation UK Limited.

## **Discount**

The amount by which the market price per share of an Investment Trust is lower than the Net Asset Value per share. The discount is normally expressed as a percentage of the Net Asset Value per share.

## **Dividend Cover**

Revenue return per share divided by dividends per share expressed as a ratio.

## **Dividend per Share**

The total of all dividends paid by the Company over the year on a per share basis.

## **Dividend Yield**

The annual Dividend per Share expressed as a percentage of the share price.

## **Earnings per Share or EPS**

The net income after tax of the Company divided by the weighted average number of shares in issue during the year. In an Investment Trust this is made up of the sum of the Revenue EPS and Capital EPS.

## **FCA**

Financial Conduct Authority.

## **Gearing or Net Gearing**

Net gearing is calculated by dividing total borrowings less cash and cash equivalents by Shareholders' Funds, expressed as a percentage.

## **Index**

A market index calculates the average performance of its constituents, normally on a weighted basis. It provides a means against which the performance of individual instruments can be assessed.

## Investment Manager

abrdrn Investment Management Limited is a subsidiary of abrdrn plc and acts as the Company's investment manager. It is authorised and regulated by the FCA.

## Investment Trust

A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.

## Key Information Document or KID

The UK version of the Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation (as it forms part of UK law following the UK's departure from the EU) requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance.

## Leverage

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its Net Asset Value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

## Manager, AIFM or aFML

abrdrn Fund Managers Limited is a subsidiary of abrdrn plc and acts as the Alternative Investment Fund Manager for the Company. It is authorised and regulated by the FCA.

## Market Capitalisation

The latest price of an Ordinary share multiplied by the number of shares in issue.

## Net Asset Value, NAV or Shareholders' Funds

The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The Net Asset Value divided by the number of shares in issue produces the Net Asset Value per Ordinary share.

## Ongoing Charges

Ratio of total expenses as a percentage of average daily Shareholders' Funds calculated as per the AIC's industry standard method.

## Pre-Investment Disclosure Document ("PIDD")

The AIFM and the Company are required to make certain disclosures available to investors in accordance with the AIFMD. Those disclosures that are required to be made pre-investment are included within a PIDD, which can be found on the Company's website.

## Premium

The amount by which the market price per share of an Investment Trust exceeds the Net Asset Value per share. The premium is normally expressed as a percentage of the Net Asset Value per share.

## Price/Earnings Ratio

This is calculated by dividing the market price per share by the Earnings per Share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

## Prior Charges

The name given to all borrowings including debentures, loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital, irrespective of the time until repayment.

## Record Date

The date when an investor needs to be holding a share in order to qualify for a forthcoming dividend.

## Revenue Return Per Share

The net income from dividends and interest received, after costs, interest and tax allocated to revenue, divided by the weighted average number of shares in issue during the year.

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## **Total Assets**

Total assets less current liabilities (before deducting Prior Charges as defined above), as per the Statement of Financial Position.

## **Total Return**

The theoretical return including reinvesting each dividend in additional shares in the Company on the day that the shares go ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the ex-dividend date.

# Your Company's Share Capital History

## Issued Share Capital at 30 June 2023

88,329,911 Ordinary shares of 25p (104,164,422 including treasury shares)

## Treasury Shares at 30 June 2023

15,834,511 Ordinary shares

## Share Capital History

<b>Year ended 30 June 1994</b>	The Company's authorised share capital on incorporation was £15,000,000, divided into 60,000,000 Ordinary shares of 25p each. On 19 August 1993, 50,000,000 Ordinary shares (with one Warrant attached for every five Ordinary shares) were issued at £1 each. On 25 March 1994, the authorised share capital of the Company was increased to £75,000,000 by the creation of 50,000,000 limited Conversion ("C") shares of £1 each and 40,000,000 Ordinary shares of 25p each. On 28 March 1994, a further 21,428,000 'C' shares were issued at £1 each, at par. On 7 June 1994, the C shares of £1 each were converted into Ordinary shares, resulting in the issue of 19,436,770 Ordinary shares (with one Warrant for every five Ordinary shares).
<b>Year ended 30 June 2007</b>	32,629,217 Ordinary shares purchased for cancellation and 117,791 Warrants cancelled following the tender offer which was approved by shareholders on 9 November 2006. 2,194,000 Ordinary shares purchased for cancellation.
<b>Year ended 30 June 2008</b>	559,175 Ordinary shares purchased to hold in treasury.
<b>Year ended 30 June 2009</b>	On 4 February 2009, as part of the merger with Gartmore Smaller Companies Trust plc ("Gartmore"), 31,189,825 Conversion ("C") shares issued to former Gartmore shareholders. On 14 April 2009, 27,545,948 of the C shares were converted into 26,273,612 Ordinary shares. On 11 June 2009, the remaining 3,643,877 C shares were converted into 3,687,639 Ordinary shares. 1,164,545 Warrants exercised as a result of the last exercise date of 30 September 2008, which resulted in the issue of the same number of new Ordinary shares. 1,732,965 Warrants lapsed without value.
<b>Year ended 30 June 2011</b>	3,670,243 Ordinary shares purchased to hold in treasury, 4,229,418 Ordinary shares sold from treasury and 825,000 new Ordinary shares issued. £25 million nominal of 3.5% Convertible Unsecured Loan Stock 2018 ("CULS") issued.
<b>Year ended 30 June 2012</b>	425,000 new Ordinary shares issued. 22,003 new Ordinary shares issued as a result of the first conversion of CULS as at 30 September 2011. 5,346 new Ordinary shares issued as a result of the second conversion of CULS as at 31 March 2012.
<b>Year ended 30 June 2013</b>	1,650,000 new Ordinary shares issued. 4,679 new Ordinary shares issued as a result of the third conversion of CULS as at 30 September 2012. 11,404 new Ordinary shares issued as a result of the fourth conversion of CULS as at 31 March 2013.
<b>Year ended 30 June 2014</b>	2,900,000 new Ordinary shares issued. 1,038,382 new Ordinary shares issued as a result of the fifth conversion of CULS as at 30 September 2013. 779,216 new Ordinary shares issued as a result of the sixth conversion of CULS as at 31 March 2014.
<b>Year ended 30 June 2015</b>	2,307,155 Ordinary shares purchased to hold in treasury. 243,589 new Ordinary shares issued as a result of the seventh conversion of CULS as at 30 September 2014. 98,580 Ordinary shares issued from treasury as a result of the eighth conversion of CULS as at 31 March 2015.

# Your Company's Share Capital History

## Continued

<b>Year ended 30 June 2016</b>	3,470,930 Ordinary shares purchased to hold in treasury following the tender offer which completed on 28 July 2015. 669,513 Ordinary shares issued from treasury as a result of the ninth conversion of CULS as at 30 September 2015. 803,871 Ordinary shares issued from treasury as a result of the tenth conversion of CULS as at 31 March 2016.
<b>Year ended 30 June 2017</b>	443,818 Ordinary shares purchased to hold in treasury. 378,514 Ordinary shares issued from treasury as a result of the eleventh conversion of CULS as at 30 September 2016. 895,583 Ordinary shares issued from treasury as a result of the twelfth conversion of CULS as at 31 March 2017.
<b>Year ended 30 June 2018</b>	927,892 Ordinary shares issued from treasury as a result of the thirteenth conversion of CULS as at 30 September 2017. 4,658,405 new Ordinary Shares issued as a result of the final conversion of CULS as at 31 March 2018.
<b>Year ended 30 June 2019</b>	27,878,842 new Ordinary shares issued as a result of the merger with Dunedin Smaller Companies Investment Trust PLC which completed on 8 October 2018. 1,131,061 Ordinary shares purchased to hold in treasury.
<b>Year ended 30 June 2020</b>	520,213 Ordinary shares purchased to hold in treasury.
<b>Year ended 30 June 2021</b>	1,382,632 Ordinary shares purchased to hold in treasury.
<b>Year ended 30 June 2022</b>	4,670,519 Ordinary shares purchased to hold in treasury.
<b>Year ended 30 June 2023</b>	5,682,136 Ordinary shares purchased to hold in treasury.

## Share Capital History

Year ended 30 June	Ordinary shares bought back for cancellation	Ordinary shares bought back into treasury	Ordinary shares issued from treasury	Ordinary shares issued	Ordinary shares in issue (excluding treasury shares)	Convertible Unsecured Loan Stock issued (£)	Convertible Unsecured Loan Stock exercised (£)	Convertible Unsecured Loan Stock total (£)	Warrants exercised	Warrants bought back	Warrants lapsed	Total Warrants In issue
1994	-	-	-	-	69,436,770	-	-	-	-	-	-	13,886,996
1995	-	-	-	-	69,525,796	-	-	-	89,026	-	-	13,797,970
1996	-	-	-	-	69,527,676	-	-	-	1,880	-	-	13,796,090
1997	-	-	-	-	69,528,656	-	-	-	980	1,592,201	-	12,202,909
1998	-	-	-	-	69,529,717	-	-	-	1,061	6,075,144	-	6,126,704
1999	-	-	-	-	69,530,267	-	-	-	550	1,350,000	-	4,776,154
2000	-	-	-	-	69,543,990	-	-	-	13,723	1,671,143	-	3,091,288
2001	-	-	-	-	69,601,685	-	-	-	57,695	-	-	3,033,593
2002	2,200,000	-	-	-	67,403,646	-	-	-	1,961	-	-	3,031,632
2003	-	-	-	-	67,403,646	-	-	-	-	-	-	3,031,632
2004	-	-	-	-	67,403,646	-	-	-	-	-	-	3,031,632
2005	-	-	-	-	67,404,646	-	-	-	1,000	-	-	3,030,632
2006	-	-	-	-	67,404,746	-	-	-	100	-	-	3,030,532
2007	34,823,217	-	-	-	32,583,790	-	-	-	2,261	117,791	-	2,910,480
2008	-	559,175	-	-	32,037,585	-	-	-	12,970	-	-	2,897,510
2009	-	-	-	29,961,251	63,163,381	-	-	-	1,164,545	-	1,732,965	-
2010	-	-	-	-	63,163,381	-	-	-	-	-	-	-
2011	-	3,670,243	4,229,418	825,000	64,547,556	25,000,000	-	25,000,000	-	-	-	-
2012	-	-	-	452,349	64,999,905	-	64,929	24,935,071	-	-	-	-
2013	-	-	-	1,666,083	66,665,988	-	38,184	24,896,887	-	-	-	-
2014	-	-	-	4,717,598	71,383,586	-	4,312,437	20,584,450	-	-	-	-
2015	-	2,307,155	98,580	243,589	69,418,600	-	811,868	19,772,582	-	-	-	-
2016	-	3,470,930	1,473,384	-	67,421,054	-	3,495,770	16,276,812	-	-	-	-
2017	-	443,818	1,274,097	-	68,251,333	-	3,022,923	13,253,889	-	-	-	-
2018	-	-	927,892	4,658,405	73,837,630	-	13,253,889	-	-	-	-	-
2019	-	1,131,061	-	27,878,842	100,585,411	-	-	-	-	-	-	-
2020	-	520,213	-	-	100,065,198	-	-	-	-	-	-	-
2021	-	1,382,632	-	-	98,682,566	-	-	-	-	-	-	-
2022	-	4,670,519	-	-	94,012,047	-	-	-	-	-	-	-
2023	-	5,682,136	-	-	88,329,911	-	-	-	-	-	-	-

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# AIFMD Disclosures (Unaudited)

abrdn Fund Managers Limited and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which can be found on the Company's website.

There have been no material changes to the disclosures contained within the PIDD since its most recent update in January 2023.

The periodic disclosures as required under the AIFMD to investors are made below:

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report, note 16 to the financial statements and the PIDD together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by aFML; and
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretary, abrdn Holdings Limited, on request, and the remuneration disclosures in respect of the AIFM's reporting period for the year ended 31 December 2022 are available on the Company's website.

## Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross Method	Commitment Method
Maximum level of leverage	3.00:1	2.00:1
Actual level at 30 June 2023	1.09:1	1.12:1

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There have been no changes to the circumstances in which the Company may be required to post assets as collateral and no guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which aFML may employ on behalf of the Company, the right of use of collateral or any guarantee granted under any leveraging arrangement, or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

*The information on this page has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by abrdn Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

# General

The Annual General Meeting will be held at Wallacespace Spitalfields, 15 Artillery Lane, London E1 7HA on Thursday 23 November 2023 at 12 noon.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of abrdn UK Smaller Companies Growth Trust plc will be held at Wallacespace Spitalfields, 15 Artillery Lane, London E1 7HA on Thursday 23 November 2023 at 12 noon for the following purposes:

## Ordinary Business

As ordinary business, to consider and, if thought fit, pass the following resolutions, in the case of resolutions 1 to 12 inclusive, as ordinary resolutions and, in the case of resolutions 13 and 14, as special resolutions:

1. To receive and adopt the Directors' Report and audited financial statements of the Company for the financial year ended 30 June 2023, together with the Independent Auditor's report thereon.
2. To receive and approve the Directors' Remuneration Report for the financial year ended 30 June 2023.
3. To approve the Directors' Remuneration Policy, the full text of which appears on pages 62 and 63.
4. To approve a final dividend for the financial year ended 30 June 2023 of 8.00 pence per Ordinary share.
5. To elect Manju Malhotra as a Director of the Company.
6. To re-elect Ashton Bradbury as a Director of the Company.
7. To re-elect Alexa Henderson as a Director of the Company.
8. To re-elect Tim Scholefield as a Director of the Company.
9. To re-elect Liz Airey as a Director of the Company.
10. To re-appoint KPMG LLP as Independent Auditor of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
11. To authorise the Directors to fix the remuneration of the Independent Auditor for the financial year to 30 June 2024.

## 12. Authority to allot shares

That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the passing of this resolution, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Rights") provided that such authority shall be limited to the allotment of shares and the grant of Rights in respect of shares with an aggregate nominal value of up to £2,158,358 (representing 10% of the Company's total issued share capital (excluding treasury shares) as at 24 August 2023), such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the date of passing of this resolution, whichever is the earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require shares to be allotted or Rights to be granted after the expiry of such authority and the Directors shall be entitled to allot shares or grant Rights in pursuance of such an offer or agreement as if such authority had not expired.

### 13. Disapplication of pre-emption rights

That, subject to the passing of resolution 12 set out above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the passing of this resolution, the Directors of the Company be and they are hereby generally and unconditionally empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the "Act"), to allot, or make offers or agreements to allot, equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 12, and/or by way of a sale of treasury shares for cash, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that power:

- a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the date of passing of this resolution, whichever is the earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting save that the Company may, at any time prior to the expiry of this authority, make an offer or enter into an agreement which would or might require equity securities to be allotted or sold out of treasury after such expiry and the Directors may allot or sell out of treasury equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
- b) shall be limited to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount of £2,158,358 (representing 10% of the Company's total issued share capital (excluding treasury shares) as at 24 August 2023).

This power shall apply in relation to the sale of equity securities for cash out of treasury as if in the opening paragraph of this resolution the words "subject to the passing of resolution 12 set out above, and" were omitted.

### 14. Authority to make market purchases of shares

That, in substitution for any existing power but without prejudice to the exercise of any such power prior to the passing of this resolution, the Company be and is hereby generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 25p each in the capital of the Company (the "Shares") on such terms and in such manner as the directors of the Company may from time to time determine (either for cancellation or for retention as treasury shares for future reissue, resale, transfer or cancellation) provided always that:

- a) the maximum aggregate number of Shares hereby authorised to be purchased is 12,941,517, or, if less, the number representing 14.99% of the issued ordinary share capital of the Company (excluding treasury shares) as at the date of the passing of this resolution;
- b) the minimum price (exclusive of expenses) which may be paid for each Share shall be 25p;
- c) the maximum price (exclusive of expenses) which may be paid for a Share is the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out; and
- d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the date of passing of this resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority, enter into a contract to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

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# Notice of Annual General Meeting

## Continued

### Special Business

As special business, to consider and, if thought fit, pass resolutions 15 and 16 as special resolutions:

#### 15. Tender offers

That, in addition to the authority given to the Company to purchase its own Ordinary shares of 25p each (the "Shares") pursuant to resolution 14 set out above and in accordance with the terms and conditions of the tender offer(s) which may be set out in the circular to be sent electronically or, if requested in hard copy form to shareholders, the Company be and is hereby authorised for the purpose of Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares either for cancellation or for retention as treasury shares for future reissue, resale or transfer provided that:

- a) the maximum number of Shares hereby authorised to be purchased pursuant to one or more tender offer(s) is 8,633,433, or, if less, the number representing 10% of the issued ordinary share capital of the Company (excluding treasury shares) as at the date of the passing of this resolution;
- b) the price which shall be paid for a Share pursuant to any such tender offer made by the Company under the authority conferred hereby shall be an amount equal to 98% of realisation value of all the assets attributable to the Shares tendered as at the latest practicable time before such tender offer; and
- c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the date of passing of this resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

#### 16. Notice of general meeting

That a general meeting (other than an Annual General Meeting) of the Company may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company.

**By order of the Board**  
**abrdrn Holdings Limited**  
Company Secretary  
1 George Street  
Edinburgh EH2 2LL  
24 August 2023

**Registered Office**  
1 George Street  
Edinburgh EH2 2LL

## Notes

- i. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him/her or on his/her behalf at the meeting. A proxy need not be a shareholder. The shareholder may appoint more than one proxy, provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the chairman of the meeting) and give instructions directly to them. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should, or if you would like to appoint more than one proxy, please contact the Company's Registrar, Computershare Investor Services PLC on 0370 889 4076. In the case of joint holders, the vote of the first named in the register of members of the Company who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- ii. To be valid, the appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, should be sent to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.
- iii. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company at close of business on 21 November 2023 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- iv. Any shareholder holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his or her proxy will need to ensure that both he or she and his/her proxy(ies) comply with their respective disclosure obligations under the FCA's Disclosure Guidance and Transparency Rules.
- v. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual and/or by logging in to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- vi. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & International Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID number 3RA50) by 12 noon on 21 November 2023 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- vii. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

# Notice of Annual General Meeting

## Continued

- viii. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- ix. A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes i and ii above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.
- x. The terms of appointment of the Directors of the Company are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the registered office of the Company and will, on the date of the meeting, be available for inspection at the venue of the meeting from 15 minutes before the meeting until the conclusion of the meeting.
- xi. Shareholders are advised that, unless otherwise stated, any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form or form of direction) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.
- xii. Following the meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and placed on the Company's website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk)
- xiii. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the Independent Auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company will be required to do so once it has received such requests either from members representing at least 5% of the voting rights of the Company or from at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the Company's registered office. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006.
- xiv. As at 6.00pm on 24 August 2023 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 86,334,339 Ordinary shares of 25p each. Each Ordinary share (other than any Ordinary shares held in treasury) carries the right to one vote at a general meeting of the Company. Accordingly, the total number of voting rights in the Company as at 24 August 2023 was 86,334,339.
- xv. If you wish to attend the meeting in person, there will be a Members' register for you to sign on arrival. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- xvi. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk)

xvii. Under section 338 of the Companies Act 2006, a member or members meeting the qualification criteria set out at note xix below, may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at that meeting. The conditions are that: (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (ii) the resolution must not be defamatory of any person, frivolous or vexatious; and (iii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than six weeks before the meeting to which the requests relate.

xviii. Under section 338A of the Companies Act 2006, a member or members meeting the qualification criteria set out at note xix below, may, subject to certain conditions, require the Company to include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that: (i) the matter of business must not be defamatory of any person, frivolous or vexatious; and (ii) the request: (a) may be in hard copy form or in electronic form; (b) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; (c) must be accompanied by a statement setting out the grounds for the request; (d) must be authenticated by the person or persons making it; and (e) must be received by the Company not later than six weeks before the meeting to which the requests relate.

xix. In order to be able to exercise the members' right to require: (i) circulation of a resolution to be proposed at the meeting (see note xvii); or (ii) a matter of business to be dealt with at the meeting (see note xviii), the relevant request must be made by: (a) a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company; or (b) at least 100 members having a right to vote at the meeting and holding shares in the Company on which there has been paid up an average sum, per member, of at least £100.

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# Contact Addresses

## Directors

Liz Airey (Chairman)  
Ashton Bradbury  
Alexa Henderson  
Manju Malhotra  
Caroline Ramsay  
Tim Scholefield

## Registered Office and Company Secretary

abrdrn Holdings Limited  
1 George Street  
Edinburgh EH2 2LL

Email: [CEF.CoSec@abrdrn.com](mailto:CEF.CoSec@abrdrn.com)

## Alternative Investment Fund Manager

abrdrn Fund Managers Limited  
1 George Street  
Edinburgh EH2 2LL

## Investment Manager

abrdrn Investment Management Limited  
1 George Street  
Edinburgh EH2 2LL

## abrdrn Customer Services Department, Investment Plan for Children, Share Plan and ISA enquiries

abrdrn Investment Trusts  
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Essex CM99 2DB

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excluding public holidays in England and Wales)

Email: [inv.trusts@abrdrn.com](mailto:inv.trusts@abrdrn.com)

## Company Registration Number

SC145455 (Scotland)

## Website

[abrdrnuksmallercompaniesgrowthtrust.co.uk](http://abrdrnuksmallercompaniesgrowthtrust.co.uk)



## Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ

Telephone: **0370 889 4076**

Website: [investorcentre.co.uk](http://investorcentre.co.uk)

## Depository

BNP Paribas Trust Corporation UK Limited  
10 Harewood Avenue  
London NW1 6AA

## Stockbroker

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA

## Solicitors

Dickson Minto W.S.  
16 Charlotte Square  
Edinburgh EH2 4DF

## Independent Auditor

KPMG LLP  
319 St. Vincent Street  
Glasgow G2 5AS

## Legal Entity Identifier ("LEI")

213800UUKA68SHSJBE37



For more information visit [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk)

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