

THE EUROPEAN SMALLER COMPANIES TRUST PLC

Report for the half-year ended 31 December 2022 *(unaudited)*

THE EUROPEAN SMALLER COMPANIES TRUST PLC

Unaudited results for the half-year ended 31 December 2022

INVESTMENT OBJECTIVE

The Company seeks capital growth by investing in smaller and medium sized companies which are quoted, domiciled, listed or have operations in Europe (ex UK).

PERFORMANCE

Total return performance (including dividends reinvested and excluding transaction costs)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV ¹	9.3	-12.5	37.0	29.6	289.4
Benchmark index ²	6.0	-15.7	15.6	21.8	192.6
Average sector ³ NAV	6.6	-23.7	20.4	28.5	219.8
Share price ⁴	8.2	-14.7	32.1	10.8	325.9
Average sector ³ share price	8.1	-26.8	16.9	21.2	236.5

Financial highlights

at 31 December 2022

at 30 June 2022

Shareholders' funds

Net assets (£'000)	698,679	652,464
Net asset value per ordinary share	174.29p	162.76p
Discount ⁵	15.1%	14.0%
Mid-market price per ordinary share	148.00p	140.00p
Gearing	11.0%	11.2%

Half-year ended
31 December 2022
£'000

Year ended
30 June 2022
£'000

Total return to equity shareholders

Revenue return after taxation	5,807	20,703
Capital return after taxation	52,799	(195,415)
Total return	58,606	(174,712)

Total return per ordinary share

Revenue	1.45p	5.16p
Capital	13.17p	(48.75p)
Total return per ordinary share	14.62p	(43.59p)

1. Net asset value ('NAV') per ordinary share total return
2. The benchmark index is the MSCI Europe ex UK Small Cap Index expressed in sterling
3. The sector is the Association of Investment Companies ('AIC') European Smaller Companies sector
4. Share price total return using mid-market closing price
5. The discount is calculated using the net assets at 31 December 2022 and the mid-market share price

Sources: Janus Henderson, Morningstar Direct, Refinitiv Datastream

INTERIM MANAGEMENT REPORT

Chairman's Statement

Performance

Europe proved to be resilient over the six months to 31 December 2022. The Eurozone economy continued to grow in the third quarter of 2022, driven by the post-pandemic revival of tourism and decisive action taken on energy. The demand for gas was lower than it had been over the two previous years due to an unseasonably warm winter and a concrete effort across the bloc to reduce demand. As a result, gas storage levels reached 95%¹ in November, making shortages and a deeper recession less likely. However, the labour market has remained unaffected by recession fears so far and may prevent inflation from falling as quickly as expected.

Despite the uncertain market backdrop, the Company's NAV total return for the period was 9.3%, outperforming the benchmark return of 6.0%. The share price total return was 8.2%, compared to the average sector share price total return of 8.1%.

Interim dividend

The Board is pleased to declare an interim dividend of 1.45p (2021: 1.25p) per ordinary share for the year ending June 2023. This is a 16.0% increase on the interim dividend paid last year and will be paid on 28 April 2023 to shareholders on the register at 31 March 2023.

We remain confident that the Company will be able to deliver progressive dividend growth as the underlying portfolio companies continue to generate healthy cash flows. We may, however, not achieve the significant growth of recent years, particularly if the economy improves, as it is likely to lead our Fund Manager to put greater emphasis on capital growth rather than on income.

Discount management

Over the six months to 31 December 2022, the Company's shares traded at an average discount of 15.2%. This can be attributed to two things:

- Europe, as an investment region, continues to be out of favour; and
- nervousness around small caps, despite our underlying holdings having strong balance sheets and European smaller companies being central to the clean energy transition.

The Board regularly monitors the discount level and evaluates the appropriateness of buying back shares when we believe this level is not indicative of the sector. At close of business on 1 March 2023, the discount stood at 14.5%. We have not deemed it beneficial to repurchase shares in the six months to 31 December 2022 or in the period up to the date of this report.

Outlook

The outlook remains uncertain due to the ongoing conflict in eastern Europe and high and volatile energy prices. Ukraine has confounded many of her sceptics and delivered a series of battlefield successes while demonstrating the impressive coherence of the Western Alliance and the EU. The cost of enduring conflict is tragic in human terms and has broader repercussions for ongoing expensive energy. However, there are reasons for optimism. The dramatic response in Europe, both from a demand reduction and a supply creation perspective, has muted the worst of the impact on the markets in which we invest. The supply chain issues that many corporates faced are now clearing, which should help drive recovery and dampen inflation's bigger impacts. In addition, the end of China's 'zero-covid' policy should further help improve the flow of global trade in due course. We believe that inflation has peaked, but will be a bit more persistent than we were accustomed to prior to the pandemic. The requirement to diversify energy sources, drive the green transition and build better resilience into supply chains will require a revival of capital expenditure. European smaller companies are well placed to benefit from this investment.

We would like to caution that policy risk has shifted after being accommodative for most of the pandemic. If the European Central Bank continues with its stated plan, there is a risk that monetary policy will become too restrictive as the short-term inflationary effects of the pandemic begin to clear. As a result, the market may experience bouts of volatility as we see things settle. We believe that a structurally higher interest rate environment will change the attitude of market valuation – the 'growth at any price' trend of recent years will end and the market will be more selective in rewarding businesses that generate cash. This aligns with our Fund Manager's approach of disciplined valuation which has worked to maximize returns for our shareholders.

Christopher Casey

Chairman

2 March 2023

1. Gas levels at 1 November 2022 published by Gas Infrastructure Europe

Fund Manager's Report

The first half of the financial year ending 30 June 2023 saw the Company outperform the benchmark. This was principally driven by the ongoing multiple compression of the 'growth at any price' stocks that had performed so well in 2021 and a result of the market recognising that the cost of capital could not stay as low as seemed the case in a zero-interest rate world. The portfolio's exposure to more sensibly priced growth, value and self-help investment cases made it more resilient than the benchmark.

The largest contributors to portfolio performance came predominantly from value stocks boosted by the underlying macroeconomic environment and some stock-specific successes. Industrials exposed to energy capital expenditure performed well such as Greek-listed conglomerate, Mytilineos, whose power generation business performed very strongly. Likewise, Norwegian Liquefied Natural Gas ('LNG') carrier FLEX LNG benefited from the market recognising the value of the vessels and the long-dated contracts the company has in place. Many of the financial stocks that the Company has invested in did very well as the prospect of rising interest rates began to boost their very depressed valuations. Irish-listed Allied Irish Bank ('AIB'), German Commerzbank, Italian-listed BFF Bank and Credito Emiliano all performed very well. In other highlights, French-listed Ipsos continued its rerating as the new management team has continued to improve governance and market communication.

Detractors from performance follow a less consistent pattern, although they have invariably been due to failure to deliver on expectations, poor management of the inflationary environment or pause for breath after strong performance. German-listed battery equipment manufacturer Manz did poorly, having let expectations become too optimistic and suffered as a large client (Britishvolt) went into administration. German-listed online meal box provider HelloFresh was a drag on performance as it gave up some of the premium rating it attained during the pandemic and as it suffered from rising customer acquisition costs. Likewise, German-listed manufacturer of gears for electric bicycles, hGears, suffered from input-cost inflation and supply chain bottlenecks at its customers.

We opened new positions in Swedish-listed climate control company, Munters, which is benefiting from the structural growth in data centres and climate-controlled agriculture, and German manufacturer of semiconductor equipment, PVA TePla, the latter making the most of the need for furnaces in exciting new areas such as silicon carbide which is essential for the fast charging of electric vehicles.

We exited our position in German bank Aareal after it was bid for by private equity. We also sold into bids for Finnish-listed building systems provider, Caverion; Finnish electronic-invoice software company Basware; French-listed automated home company, Somfy; and Dutch-listed dredging company Boskalis Westminster. The level of corporate activity showcases that even in a tricky stock market and uncertain economic environment, cash-generative undervalued businesses can attract premium bids.

The challenges the world faces in 2023 are not terribly different from those we faced in 2022: war in eastern Europe, high energy costs and inflation. Europe has done a far better job of navigating these than many commentators have expected, but this has yet to be reflected in valuation multiples. We believe that valuation disciplines will be an important part of this cycle as the market re-learns how to price the cost of capital. There is still a moderate component of the European smaller companies market that trades on multiples which are hard to reconcile to the fundamental cash generation capacity of these companies. We remain focused on pursuing investment ideas that can create a return on your capital by generating cash and delivering growth.

Ollie Beckett, Rory Stokes and Julia Scheufler
2 March 2023

Sector exposure (*% of portfolio excluding cash*)

	at 31 December 2022	at 30 June 2022
	%	%
Industrials	37.1	34.1
Consumer Discretionary	23.0	22.5
Financials	14.9	13.1
Technology	10.4	12.0
Utilities	3.8	5.1
Consumer Staples	3.2	4.1
Energy	2.3	2.0
Basic Materials	2.1	2.1
Real Estate	1.5	1.2
Health Care	1.7	2.1
Telecommunications	-	1.7
	100.0	100.0

Geographical exposure (*% of portfolio excluding cash*)

	at 31 December 2022	at 30 June 2022
	%	%
Austria	3.0	2.9
Belgium	4.6	4.8
Denmark	2.7	2.4
Finland	3.8	4.6
France	15.0	14.1
Germany	16.5	17.1
Greece	2.6	2.0
Ireland	4.0	4.9
Italy	9.3	8.5
Malta	1.1	1.0
Netherlands	10.5	10.6
Norway	2.6	3.8
Portugal	0.9	1.9
Spain	5.1	6.0
Sweden	9.3	8.8
Switzerland	9.0	6.6
	100.0	100.0

Top 40 investments at 31 December 2022

Rank	Company	Sector	Geographical area	Valuation £'000	Percentage of portfolio
1	TKH	Industrials	Netherlands	23,023	3.0
2	Van Lanschot Kempen	Financials	Netherlands	21,437	2.8
3	DFDS	Industrials	Denmark	18,902	2.4
4	u-blox	Technology	Switzerland	14,029	1.8
5	BFF Bank	Financials	Italy	13,578	1.7
6	Mytilineos	Industrials	Greece	12,735	1.6
7	Verallia	Industrials	France	12,169	1.6
8	Ipsos	Consumer Discretionary	France	12,155	1.6
9	Mersen	Industrials	France	11,216	1.4
10	Credito Emiliano	Financials	Italy	10,730	1.4
10 largest				149,974	19.3
11	Criteo	Technology	France	10,278	1.3
12	Karnov	Consumer Discretionary	Sweden	9,531	1.2
13	Recticel	Industrials	Belgium	9,462	1.2
14	AMG Advanced Metallurgical	Industrials	Netherlands	9,104	1.2
15	Trigano	Consumer Discretionary	France	8,927	1.2
16	KSB	Industrials	Germany	8,906	1.2
17	Andritz Group	Industrials	Austria	8,888	1.2
18	Befesa	Utilities	Germany	8,785	1.1
19	Grupo Catalana Occidente	Financials	Spain	8,625	1.1
20	Metso Outotec	Industrials	Finland	8,624	1.1
20 largest				241,104	31.1
21	Kindred	Consumer Discretionary	Malta	8,502	1.1
22	Nordnet	Financials	Sweden	8,430	1.1
23	Nexans	Industrials	France	8,188	1.1
24	Piaggio	Consumer Discretionary	Italy	8,175	1.1
25	Kaufman & Broad	Consumer Discretionary	France	8,105	1.1
26	Quadiant	Technology	France	8,074	1.0
27	Greenergy Renovables	Utilities	Spain	8,025	1.0
28	Motor Oil	Energy	Greece	7,983	1.0
29	eDreams ODIGEO	Consumer Discretionary	Spain	7,970	1.0
30	FLEX LNG	Industrials	Norway	7,839	1.0
30 largest				322,395	41.6
31	SAES Getters	Industrials	Italy	7,834	1.0
32	Bekaert	Basic Materials	Belgium	7,789	1.0
33	Metall Zug	Consumer Discretionary	Switzerland	7,764	1.0
34	ams OSRAM	Technology	Austria	7,762	1.0
35	Origin Enterprises	Consumer Staples	Ireland	7,345	1.0
36	Corticeira Amorim	Industrials	Portugal	7,259	0.9
37	Fugro	Industrials	Netherlands	7,241	0.9
38	FNAC Darty	Consumer Discretionary	France	7,070	0.9
39	Commerzbank	Financials	Germany	7,045	0.9
40	Gaztransport et Technigaz	Energy	France	6,975	0.9
40 largest				396,479	51.1

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company are:

- Investment strategy and objective
- Operational
- Legal and regulatory
- Financial

Information on these risks and how they are managed is given in the Annual Report 2022. In the view of the Board, these principal risks and the uncertainties facing the Company remained largely unchanged over the six months under review. The Board anticipates that these principal risks will remain applicable to the remaining six months of the financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Each director (as set out in note 15) confirms, to the best of their knowledge, that:

- the condensed set of financial statements has been prepared in accordance with UK adopted International Accounting Standards and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by Disclosure and Transparency Rule ('DTR') 4.2.4 R;
- the interim management report includes a fair review of the information required:
 - by DTR 4.2.7 R (indication of important events during the first six months and a description of principal risks and uncertainties for the remaining six months of the year); and
 - by DTR 4.2.8 R (disclosure of related party transactions and changes therein).

On behalf of the Board
Christopher Casey
Chairman
2 March 2023

STATEMENT OF COMPREHENSIVE INCOME

	Half-year ended 31 December 2022 (unaudited)			Half-year ended 31 December 2021 (unaudited)			Year ended 30 June 2022 (audited)		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Investment income	6,746	-	6,746	7,946	-	7,946	25,231	-	25,231
Other income	1	-	1	-	-	-	-	-	-
Gains/(losses) on investments held at fair value through profit or loss	-	61,176	61,176	-	(11,013)	(11,013)	-	(185,662)	(185,662)
Total income	6,747	61,176	67,923	7,946	(11,013)	(3,067)	25,231	(185,662)	(160,431)
Expenses									
Management and performance fees (note 7)	(362)	(7,666)	(8,028)	(459)	(6,486)	(6,945)	(844)	(8,906)	(9,750)
Other operating expenses	(322)	-	(322)	(383)	-	(383)	(830)	-	(830)
Profit/(loss) before finance costs and taxation	6,063	53,510	59,573	7,104	(17,499)	(10,395)	23,557	(194,568)	(171,011)
Finance costs	(154)	(625)	(779)	(95)	(380)	(475)	(194)	(775)	(969)
Profit/(loss) before taxation	5,909	52,885	58,794	7,009	(17,879)	(10,870)	23,363	(195,343)	(171,980)
Taxation	(102)	(86)	(188)	(805)	-	(805)	(2,660)	(72)	(2,732)
Profit/(loss) for the period and total comprehensive income	5,807	52,799	58,606	6,204	(17,879)	(11,675)	20,703	(195,415)	(174,712)
Return per ordinary share – basic and diluted (note 2)	1.45p	13.17p	14.62p	1.55p	(4.46p)	(2.91p)	5.16p	(48.75p)	(43.59p)

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with UK adopted International Accounting Standards. The revenue and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

All income is attributable to the equity holders of the Company.

The Company does not have any other comprehensive income and hence the net profit for the period as disclosed above is the same as the Company's total comprehensive income.

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

STATEMENT OF CHANGES IN EQUITY

Half-year ended 31 December 2022 (unaudited)	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 1 July 2022	6,264	120,364	13,964	481,409	30,463	652,464
Total comprehensive income:						
Profit for the period	-	-	-	52,799	5,807	58,606
Transactions with owners recorded directly to equity:						
Costs relating to subdivision of shares	-	-	-	17	-	17
Ordinary dividends paid	-	-	-	-	(12,408)	(12,408)
	-----	-----	-----	-----	-----	-----
Total equity at 31 December 2022	6,264	120,364	13,964	534,225	23,862	698,679
	=====	=====	=====	=====	=====	=====
Half-year ended 31 December 2021 (unaudited)	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 1 July 2021	6,264	120,364	13,964	676,886	23,189	840,667
Total comprehensive income:						
(Loss)/profit for the period	-	-	-	(17,879)	6,204	(11,675)
Transactions with owners recorded directly to equity:						
Costs relating to subdivision of shares	-	-	-	(28)	-	(28)
Ordinary dividends paid	-	-	-	-	(8,418)	(8,418)
	-----	-----	-----	-----	-----	-----
Total equity at 31 December 2021	6,264	120,364	13,964	658,979	20,975	820,546
	=====	=====	=====	=====	=====	=====
Year ended 30 June 2022 (audited)	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 1 July 2021	6,264	120,364	13,964	676,886	23,189	840,667
Total comprehensive income:						
(Loss)/profit for the year	-	-	-	(195,415)	20,703	(174,712)
Costs relating to subdivision of shares	-	-	-	(62)	-	(62)
Transactions with owners recorded directly to equity:						
Ordinary dividends paid	-	-	-	-	(13,429)	(13,429)
	-----	-----	-----	-----	-----	-----
Total equity at 30 June 2022	6,264	120,364	13,964	481,409	30,463	652,464
	=====	=====	=====	=====	=====	=====

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

BALANCE SHEET

	At 31 December 2022 (unaudited) £'000	At 31 December 2021 (unaudited) £'000	At 30 June 2022 (audited) £'000
Non-current assets			
Investments held at fair value through profit or loss	775,230	906,484	725,441
Current assets			
Receivables	3,481	3,383	6,986
Cash and cash equivalents	-	-	11
	3,481	3,383	6,997
Total assets	778,711	909,867	732,438
Current liabilities			
Payables	(8,608)	(7,211)	(11,155)
Bank overdrafts	(71,424)	(82,110)	(68,819)
	(80,032)	(89,321)	(79,974)
Net assets	698,679	820,546	652,464
Equity attributable to equity shareholders			
Called-up share capital (note 3)	6,264	6,264	6,264
Share premium account	120,364	120,364	120,364
Capital redemption reserve	13,964	13,964	13,964
Retained earnings:			
Other capital reserves	534,225	658,979	481,409
Revenue reserve	23,862	20,975	30,463
Total equity	698,679	820,546	652,464
Net asset value per ordinary share – basic and diluted (note 4)	174.29p	204.69p	162.76p

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

CASH FLOW STATEMENT

	Half-year ended 31 December 2022 (unaudited) £'000	Half-year ended 31 December 2021 (unaudited) £'000	Year ended 30 June 2022 (audited) £'000
Operating activities			
Profit/(loss) before taxation	58,794	(10,870)	(171,980)
Add back: interest payable	779	475	969
(Less)/add back: (gains)/losses on investments held at fair value through profit or loss	(61,176)	11,013	185,662
Sales of investments held at fair value through profit or loss	123,771	160,534	317,888
Purchases of investments held at fair value through profit or loss	(110,848)	(145,949)	(295,427)
Withholding tax on dividends deducted at source	(218)	(840)	(3,691)
Decrease/(increase) in prepayments and accrued income	496	(702)	(320)
Decrease/(increase) in amounts due from brokers	3,133	547	(2,462)
(Decrease)/increase in accruals and deferred income	(1,564)	49	2,910
(Decrease)/increase in amounts due to brokers	(966)	-	1,100
	-----	-----	-----
Net cash inflow from operating activities before interest and taxation	12,201	14,257	34,649
	-----	-----	-----
Interest paid	(779)	(475)	(969)
Taxation (paid)/recovered	(94)	213	167
	-----	-----	-----
Net cash inflow from operating activities	11,328	13,995	33,847
	-----	-----	-----
Financing activities			
Equity dividends paid (net of refund of unclaimed dividends)	(12,408)	(8,418)	(13,429)
Costs relating to subdivision of shares	-	(12)	(62)
Net drawdown/(repayment) of bank overdraft	1,069	(5,565)	(20,345)
	-----	-----	-----
Net cash outflow from financing	(11,339)	(13,995)	(33,836)
	-----	-----	-----
(Decrease)/increase in cash and cash equivalents	(11)	-	11
Cash and cash equivalents at the start of the period	11	-	-
	-----	-----	-----
Cash and cash equivalents at the period end	-	-	11
	=====	=====	=====

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

Notes to the condensed financial statements

1. Accounting policies

a) Basis of preparation

The condensed financial statements comprise the unaudited results of the Company for the half-year ended 31 December 2022. They have been prepared on a going concern basis and in accordance with UK adopted International Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP'), issued in April 2021 where the SORP is consistent with the requirements of UK adopted International Accounting Standards.

For the period under review, the Company's accounting policies have not varied from those described in the annual report for the year ended 30 June 2022. These financial statements have not been audited or reviewed by the Company's auditors.

2. Return per ordinary share

The return per ordinary share is based on the profit for the half-year of £58,606,000 (half-year ended 31 December 2021: loss of £11,675,000; year ended 30 June 2022: loss of £174,712,000) and on 400,867,176 ordinary shares (half-year ended 31 December 2021 and year ended 30 June 2022: 400,867,176), being the weighted average number of ordinary shares in issue during the period.

The return per ordinary share detailed above can be further analysed between revenue and capital, as below.

	Half-year ended 31 December 2022 (unaudited) £'000	Half-year ended 31 December 2021 (unaudited) £'000	Year ended 30 June 2022 (audited) £'000
Net revenue profit	5,807	6,204	20,703
Net capital profit/(loss)	52,799	(17,879)	(195,415)
	-----	-----	-----
Net profit/(loss)	58,606	(11,675)	(174,712)
	=====	=====	=====
Weighted average number of ordinary shares in issue during the period	400,867,176	400,867,176	400,867,176

	Half-year ended 31 December 2022 (unaudited) pence	Half-year ended 31 December 2021 (unaudited) pence	Year ended 30 June 2022 (audited) pence
Revenue return per ordinary share	1.45	1.55	5.16
Capital return per ordinary share	13.17	(4.46)	(48.75)
	-----	-----	-----
Total return per ordinary share	14.62	(2.91)	(43.59)
	=====	=====	=====

3. Share capital

At 31 December 2022 there were 400,867,176 ordinary shares in issue (31 December 2021 and 30 June 2022: 400,867,176).

During the half-year ended 31 December 2022, the Company did not issue or repurchase for cancellation any ordinary shares (31 December 2021 and 30 June 2022: same).

4. Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to equity shareholders of £698,679,000 (31 December 2021: £820,546,000; 30 June 2022: £652,464,000) and on 400,867,176 ordinary shares (31 December 2021 and 30 June 2022: 400,867,176), being the number of ordinary shares in issue at the period end.

5. Dividends

The Company has declared an interim dividend of 1.45p per ordinary share (31 December 2021: 1.25p) payable on 28 April 2023 to members on the register as at 31 March 2023. The shares will trade ex-dividend on 30 March 2023.

A final dividend of 3.10p per ordinary share was paid on 2 December 2022 from the Company's revenue account in respect of the year ended 30 June 2022.

6. Transaction costs

Purchase transaction costs for the half-year ended 31 December 2022 were £98,000 (half-year ended 31 December 2021: £178,000; year ended 30 June 2022: £449,000). These comprise mainly stamp duty and commission. Sales transaction costs for the half-year ended 31 December 2022 were £48,000 (half-year ended 31 December 2021: £67,000; year ended 30 June 2022: £126,000).

7. Management and performance fees

The base management fee payable to the investment manager is 0.55% of net assets up to £800m, reducing to 0.45% thereafter. Prior to 1 October 2021, the base management fee payable to the investment manager was 0.6% of net assets up to £500m, reducing to 0.5% thereafter. Fees are charged quarterly in arrears.

The investment manager may also be eligible to receive a performance-related fee. In order to determine whether a performance is payable, performance is measured against, and expressed relative to, the benchmark, the MSCI Europe ex UK Small Cap Index expressed in sterling. Performance of both the Company and the benchmark is measured on a NAV total return (with gross income reinvested) basis and is measured over three years. For the purpose of the performance fee calculation, performance of the previous two years is based on the Company's former benchmark, the Euromoney Smaller European Companies (ex UK) Index expressed in sterling.

In any given year in which a performance fee is payable, the performance fee rate is 15% of the positive difference between the average annual NAV total return and the average annual total return of the benchmark. The upper limit on the total fee, including the base fee and any performance fee, for any given accounting year is 2.0% of the Company's NAV as at the last day of the relevant calculation period. A performance fee hurdle over the benchmark of 1.0% has to be reached before any performance fee can be earned. For clarity, performance is measured solely on the basis of NAV total return relative to the total return of the benchmark index; no account is taken of whether the NAV grows or shrinks in absolute terms. Any performance fee payable is allocated to capital.

A performance fee of £6,220,000 has been accrued as at 31 December 2022 (31 December 2021: £4,650,000; 30 June 2022: £5,531,000).

8. Financial instruments

At the period end the carrying value of financial assets and financial liabilities approximates their fair value.

Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset or liability. The different levels are defined as follows:

Level 1: valued using quoted prices in active markets for identical assets;

Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1; and

Level 3: valued by reference to valuation techniques that are not based on observable market data.

Financial assets and financial liabilities at fair value through profit or loss at 31 December 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments at fair value through profit or loss	775,230	-	-	775,230
	-----	-----	-----	-----
Total financial assets and liabilities carried at fair value	775,230	-	-	775,230
	=====	=====	=====	=====

There were no transfers between levels of fair value hierarchy during the period. Transfers between levels of fair value hierarchy are deemed to have occurred at the date of the event or through a change in circumstances that caused the transfer.

9. Going concern

Having reassessed the principal risks and uncertainties, the directors consider that it is appropriate to continue to adopt the going concern basis of preparation and confirm that there are no material uncertainties of which they are aware. The assets of the Company consist mainly of securities, most of which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

10. Related party transactions

The Company's transactions with related parties in the period were with the directors and Janus Henderson (the investment manager). There were no material transactions between the Company and its directors during the period and the only amounts paid to the directors were in respect of expenses and remuneration for which there were no outstanding

amounts payable at the period end. In relation to the provision of services by Janus Henderson, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there were no material transactions with Janus Henderson affecting the financial position of the Company during the period under review.

11. Comparative information

The financial information contained in this half-year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half-years ended 31 December 2022 and 31 December 2021 has not been audited or reviewed by the Company's auditors. The figures and financial information for the year ended 30 June 2022 are an extract based on the latest published accounts and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and include the Independent Auditor's Report which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

12. Website

Details of the Company's share price and net asset value, together with general information about the Company, monthly factsheets and data, announcements, reports and details of general meetings can be found at www.europeansmallercompaniestrust.com

13. Half-year report

The Company's half-year report will be available on the Company's website. An update extracted from the Company's report for the half-year ended 31 December 2022 will be posted to shareholders in March 2023 and will be available on the website thereafter.

14. Company status

The European Smaller Companies Trust PLC is registered in England and Wales, No. 2520734, has its registered office at 201 Bishopsgate, London EC2M 3AE and is listed on the London Stock Exchange.

SEDOL/ISIN: BMCF868/GB00BMCF8689

London Stock Exchange (TIDM) code: ESCT

Global Intermediary Identification Number (GIIN): JX9KYH.99999.SL.826

Legal Entity Identifier (LEI): 213800N1B1HCQG2W4V90

15. Directors and Secretary

At the date of this report, the directors of the Company are Christopher Casey (Chairman), Daniel Burgess (Chairman of the Audit Committee), Ann Grevelius and Simona Heidempergher (Senior Independent Director). The Corporate Secretary is Janus Henderson Secretarial Services UK Limited.