abrdn Smaller Companies Income Trust plc

Annual Report 31 December 2022

Hunting smaller companies for a stronger income

abrdnsmallercompaniesincome.co.uk

The Company invests in **Telecom Plus**, a British multi-utility supplier of gas, electricity, home insurance and landline, broadband and mobile services to residences and businesses.

"With the year end share price at 240.5p, this represents a dividend yield of 4.1%. Over three and five years, the dividend has increased by 18.8% and 39.0% respectively."

Dagmar Kent Kershaw,
Chair

"The FTSE 100, with its large exposure to oil and gas, banks and mining companies was neutral for the year while the more domestically focused FTSE 250 and Numis Smaller Companies indices declined -19.7% and -17.9% respectively."

Amanda Yeaman,
abrdn Investments Limited

Performance Highlights

Net asset value total return[A]
2022:

–33.2%

2021: +30.4%

Numis Smaller Companies ex Inv Trust Index
2022:

–17.9%

2021: +21.9%

Share price total return[A]
2022:

–33.7%

2021: +22.9%

Earnings per Ordinary share (revenue)
2022:

11.24p

2021: 9.69p

Dividend per share
2022:

9.80p

2021: 8.85p

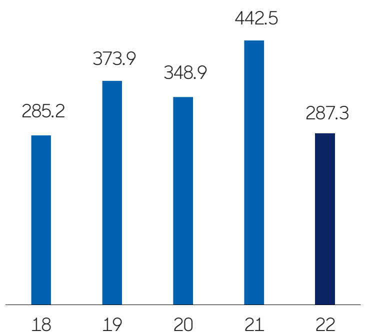
Discount to net asset value[A]
2022:

16.3%

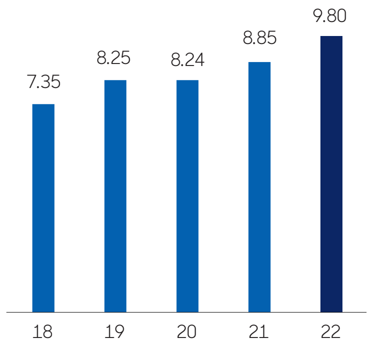
2021: 15.3%

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 91 and 93.

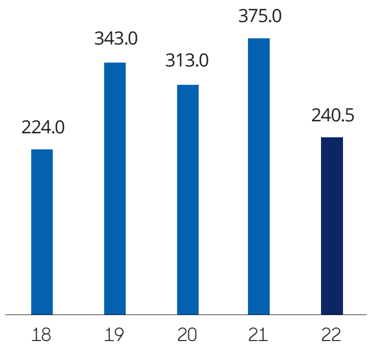
Net asset value per share
At 31 December – pence



Dividends per share
Year ended 31 December – pence



Mid-market price per share
At 31 December – pence



Contents

"Your Company's dividend for the year has increased to 9.80p per share, versus 8.85p for 2021, an increase of 10.7%."

Dagmar Kent Kershaw, Chair

Financial Calendar, Dividends and Highlights

Payment dates of quarterly dividends	**January 2023, April 2023, July 2023, October 2023**
Annual General Meeting (London)	**14 June 2023**
Half year end	**30 June 2023**
Expected announcement of results for the six months ending 30 June 2023	**September 2023**
Financial year end	**31 December 2023**
Expected announcement of results for the year ending 31 December 2023	**March 2024**

Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	**2.40p**	**7 April 2022**	**8 April 2022**	**25 April 2022**
Second interim dividend	**2.40p**	**30 June 2022**	**1 July 2022**	**22 July 2022**
Third interim dividend	**2.40p**	**6 October 2022**	**7 October 2022**	**28 October 2022**
Fourth interim dividend	**2.60p**	**5 January 2023**	**6 January 2023**	**27 January 2023**
2022	**9.80p**			
First interim dividend	2.15p	1 April 2021	6 April 2021	23 April 2021
Second interim dividend	2.15p	1 July 2021	2 July 2021	23 July 2021
Third interim dividend	2.15p	7 October 2021	8 October 2021	29 October 2021
Fourth interim dividend	2.40p	6 January 2022	7 January 2022	28 January 2022
2021	8.85p			

Financial Highlights

	31 December 2022	31 December 2021	% change
Total investments	**£68,732,000**	£102,183,000	–32.7
Shareholders' funds	**£63,520,000**	£97,840,000	–35.1
Market capitalisation	**£53,174,000**	£82,912,000	–35.9
Net asset value per Ordinary share	**287.29p**	442.52p	–35.1
Share price (mid market)	**240.50p**	375.00p	–35.9
Discount to net asset value per Ordinary share[A]	**16.3%**	15.3%	
Net gearing[A]	**8.2%**	4.5%	
Ongoing charges ratio[A]	**1.34%**	1.20%	
Dividends and earnings			
Earnings per Ordinary share (revenue)[B]	**11.24p**	9.69p	+16.0
Dividends per Ordinary share[C]	**9.80p**	8.85p	+10.7
Dividend cover[A]	**1.15**	1.09	+5.5
Revenue reserves[D]	**£3,562,000**	£3,200,000	+11.3

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 91 and 92.
[B] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[C] The figures for dividends per share reflect the years in which they were earned (see note 8 on page 78).
[D] The revenue reserve figure does not take account of the fourth interim dividend amounting to £575,000 (2021 – £531,000).

Strategic Report

Headquartered in the UK, **Alpha Financial Markets Consulting** is a leading global provider of specialist consultancy services to the asset management, wealth management and insurance industries.

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

Chair's Statement

Following the Company's year end, the Board commenced a strategic review, announced on 13 February 2023. The Board recognises that whilst the Company has continued to deliver on its investment objective of providing a high and growing dividend, its small size coupled with a persistent and material discount to net asset value ("NAV") has created challenges in liquidity and has prevented the Company from growing. The Company received an unsolicited proposal from another investment trust and the Board believes it is in the best interests of shareholders to seek proposals from all potentially interested parties.

The Company has received proposals from a number of investment companies and investment management groups, almost all of which envisage shareholders being offered the option to roll over some or all of their investment into a successor vehicle or to receive cash for some or all of their shareholding through a reconstruction under section 110 of the Insolvency Act. The strategic review process is now at a stage where a short list of candidates have been requested to prepare detailed proposals and responses to the Board's specific questions. The Board will review all the proposals fully and revert to you, as shareholders, with our recommendation as soon as practicable.

The Board's statement on its consideration of the Company's ability to continue as a going concern (with material uncertainty) is on page 44.

Performance

In 2022 investors were faced with two events that most had hoped they would not see in their lifetime; the return of double-digit inflation and a war in Europe as Russia invaded Ukraine. The consequences of the latter sent the price of oil and gas to unprecedented levels, which, coupled with post-pandemic supply issues, has triggered an inflation shock. In financial markets, there were very few places to hide. We witnessed sharp falls at the same time in equity and bond markets, interest rates and bond yields rose dramatically, reversing a 40 year trend, and we saw a widening of investment trust discounts across the sector.

During times of macro uncertainty, there tends to be rotation into the "cheapest" stocks in markets and this factor rotation is driven primarily by top-down influences, (for example, sectors, oil price, FX rates etc.) rather than at the individual company fundamentals level. This rotation in terms of style into 'value' stocks dominated the year and the combination of events meant that the Manager's Quality, Growth and Momentum investment process was out of favour. Despite this we have been pleased with the dividend growth achieved.

Against this backdrop, the Company suffered under-performance over one year against its index, the Numis Smaller Companies (excluding investment trusts) Index, returning a Net Asset Value ("NAV") total return of -33.2% vs an index return of -17.9%.

Share price performance for the period was -33.7%.

The Company's three and five year performance also now reflects the difficult markets we have endured, with a NAV total return of -16.4% and a share price return of -22.6%, versus a benchmark return of -4.2% over three years and a NAV return of -4.0%, a share price return of -2.6% and a composite index return of -2.8% over the five year period.

The Company's one and three year performance is measured against the Numis Smaller Companies (excluding investment trusts) Index, which was introduced by the Company on 1 January 2020. Prior to that date, the Company's benchmark was the FTSE Small Cap (excluding investment trusts) Index. Performance over a five year period is therefore measured against a composite of both indices.

Dividend

On a positive note, the Company's revenue return for the year ended 31 December 2022 was 11.24p per share (2021: 9.69p). This represents an increase of almost 16% on last year's figure and is a reflection of the resilience shown by the Company's portfolio holdings. Further details on this are covered in the Investment Manager's Review on pages 11 to 18.

As a result of this increase, we are delighted to be able to declare a rise in this year's dividend to 9.80p (2021: 8.85p). This is, as it was last year, fully covered by a combination of this year's earnings.

With the year end share price at 240.5p, this represents a dividend yield of 4.1%. Over three and five years, the dividend has increased by 18.8% and 39.0% respectively.

The undistributed balance of the revenue account will be added to the Company's revenue reserve and will represent 13.5p per share following payment of the Company's fourth interim dividend. The Board declared its first interim dividend for the new financial year to 31 December 2023 of 2.60p per share, which will be payable on 28 April 2023 to shareholders on the register at close of business on 31 March 2023.

Ongoing Charges

The Company's ongoing charges have increased in the year to the end of December 2022 to 1.30%, compared to last year's figure of 1.20%. The principal reason for the increase was the decrease in average net assets during the year. The Company's ongoing charges are subject to regular review by the Board.

Discount

With discounts widening across the sector during 2022, the Company's discount at the end of December 2022 stood at -16.3%, a slight widening to the discount of -15.3% at the end of December 2021.

Gearing/Debt

The Company's use of its £10 million credit facility, £5 million of which is at a fixed interest rate and £5 million at a variable interest rate, has remained unchanged, with £7 million of the facility being utilised at the year end. The £5 million variable element of the facility was renewed in April 2022 with the Royal Bank of Scotland International, London Branch for a 2 year period. The Company's £5 million fixed rate loan will expire at the end of April 2023.

The Company's net gearing position as at 31 December 2022 was 8.2%, compared to 4.5% at the end of 2021.

Board Composition

Rosalyn Breedy was appointed to the Board of the Company as an independent Non-Executive Director on 5 January 2022.

Rosalyn is a corporate, funds and financial services lawyer and has brought with her vast experience of regulated funds, as well as a unique and diverse background which complements the Board's skills and experience.

At the Company's 2022 Annual General Meeting (AGM), Robert Lister retired from the Board after serving ten years as a Director, with seven years as Chairman. In accordance with the Board's succession plan, I assumed the role of Chair upon his retirement. The Board would like to formally note Robert's contribution to the Company during his tenure and thank him for his stewardship and guidance.

Following these changes, the Board comprises two male and two female independent Non-Executive Directors.

Biographies of each Board member can be found in the Director's Report in page 42 of this report.

Environmental, Social and Corporate Governance ("ESG")

The Manager continues its active engagement with portfolio companies on ESG matters on a regular basis and updates are provided to the Board at each Board meeting. As well as being able to draw on a team of 20 individuals in this area, the team also have their own on desk Smaller Companies ESG analyst.

More information concerning the Manager's ESG investment process can be found in the Manager's Review on pages 19 to 21 of this report.

Change of Name of abrdn Entities

Following Standard Life Aberdeen plc's change of name to abrdn plc in July 2021, we have, more recently, seen the Company's Manager, Investment Manager and Company Secretary change company name as part of abrdn's rebranding exercise.

You will find the new names for each Company in the Corporate Information section on page 100 of this report.

Company Change of Name

As referenced in the last Annual Report, the Board decided to also change the Company's name, from Aberdeen Smaller Companies Income Trust plc to abrdn Smaller Companies Income Trust plc, to align itself with abrdn's new brand. This change came into effect on 7 January 2022.

Chair's Statement

Continued

Change of Lead Fund Manager

Abby Glennie and Amanda Yeaman have co-managed the Company assets since November 2020. Following changes to the Smaller Companies team at abrdn, Amanda has assumed the role of lead manager of the Company's portfolio, supported by Abby. Both individuals are still very much involved in the management of the Company's assets.

abrdn's London Office Move

In December 2022, abrdn relocated its London office to 280 Bishopsgate, London, EC2M 4AG, having been at Bow Bells House for over 13 years. As a result, the Company's forthcoming AGM will be held at a different location to last year and further details can be found below.

Annual General Meeting

The Company's AGM is scheduled to take place at 11:00am on Wednesday 14 June 2023 at Wallacespace, 15 Artillery Lane, London, E1 7HA, a short walk from Liverpool Street Station.

At the meeting, shareholders will have the opportunity to hear an update from the Manager and ask questions of the Manager and the Board. We are looking forward to welcoming you to this new venue near abrdn's London office.

As mentioned above, at the time of writing the Board is undergoing a strategic review and will notify shareholders of any updates through an announcement to the London Stock Exchange and on the Company's website. We therefore encourage shareholders to check for such updates.

The Board strongly encourages all shareholders, irrespective of whether they are able to attend the AGM or not, to lodge their proxy votes in advance of the meeting. Should shareholders have any questions that they would like to submit in advance of the meeting, please do so by emailing **smallercompaniesincome@abrdn.com.**

Outlook

At the time of writing there is uncertainty about how long the bear market will last, notwithstanding the future of the Company, and every cycle that we have experienced has been different. This dynamic makes it harder to say with confidence how any recession or market recovery will develop, not least because there is also uncertainty on what any policy response from central banks will be.

The outlook for both economies and businesses, globally, is tough and, whilst a high degree of earnings forecast reductions have already been seen, areas of risk remain. Smaller Companies indices have sold-off aggressively versus others, particularly within the UK, and so the opportunity for relative strength in the smaller end of the market remains attractive. Whilst market timing is difficult, smaller companies typically lead a market recovery.

Looking to the coming year we believe that the Quality focus will prove relatively resilient in a recessionary environment. The Manager continues to adhere to a long-established investment process that selects high quality smaller companies with resilient earnings that lead to robust dividend payments. Given that we could be entering a recession, it would be unusual if this was dominated by cheaper value cyclical business where earnings are likely to be more challenged over the next year, although the Manager will continue to monitor the likelihood and depth and breadth of a recession as a factor in their decision making.

Dagmar Kent Kershaw
Chair
27 March 2023

Investment Manager's Review

Overview

After a very challenging 2021 we had hoped for a more stable backdrop for 2022, but one thing we have learned over recent years is to expect shocks and surprises. At the beginning of the year, policymakers still expected inflation to be 'transitory' and commentators and economists expected a contained, if modest post pandemic recovery for the UK economy. Yet what followed was a year dominated by top-down macro factors rather than bottom-up company fundamentals. Russia's invasion of Ukraine, together with the very hawkish pivot of central banks in the US and the UK, meant that any hopes for a controlled recovery from the pandemic were no longer a reality. Markets suffered a number of macroeconomic shocks, most notably the return of inflation and an end to years of record low interest rates. Large increases in the prices of food and energy sparked fears about a 'cost of living' crisis and declines in household disposable incomes. For businesses, investors worried that inflation would result in higher input costs and potentially lower profit margins leading to a reduction in company earnings. In October, analysts delivered the highest proportion of downgrades since June 2020 and the divergence across the market cap bands was pronounced. The FTSE 100 recorded net upgrades thanks to the global dollar earners and energy constituents in the index. In contrast, the Mid 250 stocks suffered twice as many downgrades as upgrades.

Global value stocks performed relatively well as investors rotated away from growth stocks and looked for opportunities among lowly valued, out of favour companies. To some extent, this shift could be seen as a reversal of pandemic trends, when internet and technology stocks were in demand. In terms of currencies, the US dollar was a standout performer, supported by higher interest rates in the US. The result was a UK market that was essentially divided into two camps. The FTSE 100, with its large exposure to oil and gas, banks and mining companies was neutral for the year while the more domestically focused FTSE 250 and Numis Smaller Companies indices declined -19.7% and -17.9% respectively.

The UK also saw political change with Liz Truss' appointment as Prime Minister and the disastrous budget from her Chancellor Kwazi Kwarteng which put further pressure on UK markets. We saw some stability as both Liz Truss and Chancellor Kwarteng were replaced by Rishi Sunak and Jeremy Hunt respectively, who reversed the actions of their predecessors.

Equity capital markets came to a standstill in 2022 with very few IPOs in the year. We believe many IPOs scheduled for 2022 have only been postponed, not cancelled, and will come to the market eventually. Similarly, mergers and acquisitions ("M&A") volumes have declined substantially, often driven by private equity firms deploying less capital than in previous years as well as challenges posed by the rising cost of debt. However, in the global M&A market, the UK was a hot spot of activity. Attracted by a cheap currency and many attractively valued assets, we saw two of the Company's best performers come as a result of bids.

The differing performance of the large and small cap indices was mirrored in fund flows. Large cap funds suffered small outflows in 2022 of c.2.0% of starting assets under management ("AUM"); mid-cap funds tracking the FTSE 250 saw outflows of 18.4% of starting AUM; whereas, Small cap funds saw outflows of 11.8% of starting AUM.

Equity markets were volatile in 2022 and, influenced by multiple exogenous forces, we saw irrational responses to news flow. In 2023, a recession seems inevitable. Central banks have stopped talking about a 'soft landing' and the UK seems to be the first major market to accept that it has already entered a downturn. Even in a recession, there are still opportunities for the market. Stock picking becomes important, and our Quality Growth and Momentum process has historically performed relatively well against this backdrop.

Performance

The UK smaller companies sector as represented by the Numis Smaller Companies including AIM (excluding Investment Companies) Index delivered a total return of -17.9% in the year ended 31 December 2022. This compares with a NAV total return for the Company of -33.2%. Over the same period the FTSE100 Index of the largest UK listed companies returned 4.6%.

We thank shareholders for their support during a year of market turmoil. It has been impossible to deny that the year has not been painful for investors yet this is no reason to lose faith in holding investment trusts. The volatility for anyone who hasn't lived through a bear market before must have been alarming but we remain resolute in the merits of our long established investment process over the long term, and indeed of the long term performance of smaller companies. Income focused mandates tend to be more value-orientated, as growth stocks tend not to pay out a dividend and our Quality Growth and Momentum process with income bias has not afforded the resilience of income mandates with that Value focus.

Investment Manager's Review

Continued

The Company's underperformance was most keenly felt in the first half of the year where the market de rating did the most damage. This coincided with the most extreme period of value outperformance and lack of rationality within the market. The second half of the year saw an improvement in the market environment but there were still periods where there was a disconnect between fundamentals and share prices. It wasn't until the final months of the year that the market began to reward Quality, yet Value remains as a positive contributor as well. The market also felt more rational in the final quarter of the year in its reaction to reporting results, which feels like a more manageable environment for us. Typically, market recoveries are characterised by cyclical value names leading the way, yet in the latter months of the year this was not the case. This gives us more comfort to look at each cycle uniquely, and not be overly led by the past. We believe there is potential for a market recovery during a recession and that, particularly given the sharp derating seen in Quality Growth names in the first half of 2022, this could be led by those resilient Growth businesses. Valuations are a consideration in our process.

Portfolio Attribution

Telecom Plus, Alpha Financial Markets Consulting and Games Workshop were the top contributors to performance in the year, while Hilton Foods, Mortgage Advice Bureau and Seraphine were the largest detractors.

Telecom Plus, the UK's only fully integrated multi-service provider, was the top contributor to performance as the shares responded to five upgrades to earnings during the year, as momentum in the story gathered pace. The business is well positioned in the current economic backdrop and is a 'cost of living crisis' winner as it has accelerated growth in its customer base and benefited from operational leverage. The company has a compelling proposition in a very tough consumer environment. This should drive strong profit growth and dividend growth. The company has a c.3% share of households and so there is plenty of room for the business to be materially larger and more profitable, aided by alternative providers having gone bust and tighter regulation in the industry. Further detail on Telecom Plus can be found in the case study section on page 39.

Alpha Financial Markets Consulting (Alpha FMC) is a global provider of specialist consultancy services to the asset/wealth management industry. Since listing on AIM in October 2017 management have developed a consistent track record of operational delivery and upgrades to earnings estimates and this year was no different. The business had another great year with sustained momentum driving strong organic growth across all regions and service lines. A testament to the strength of the model and end markets where growing demand for consulting services is a powerful structural driver of growth. The outlook from here remains strong, as industry tailwinds remain firmly intact, with Alpha FMC's expansion into insurance, alternative investment areas and the United States.

Games Workshop, the designer and manufacturer of miniature figures and games was also a positive contributor to performance in the year. Whilst not immune from supply chain challenges in the first half of the year, the business delivered an encouraging second quarter update with revenue trends remaining robust and a return to growth in core operating profit. In December, Games Workshop announced that it has agreed in principle with Amazon to develop the company's reach into film and TV, to which the shares responded well. Management gave us a clear signal of confidence by announcing that it will pay a dividend of 45p. This makes a total of 165p declared in the year to 31 December 2022, which compares to 65p in the same period last year. This is encouraging given that the company pays dividends out of 'truly surplus cash'. As a result, dividends are an important signpost for cash generation (and profit performance). Hobbies tend to be recession resilient and Games Workshop's revenues are driven more by the strength of the product launches than the background economy.

Hilton Foods (Hilton) was a detractor from performance as shares fell sharply in response to a downgrade to profitability. This was based on a surge in the price of salmon and other seafood, which has been exacerbated by the war in Ukraine. It is important to note, however, that the company's established meat business model has remained robust in the face of severe cost pressures, protected by the cost-plus nature of its contracts. The warning was largely due to cost inflation in its multi-customer businesses, an area in which the company has increased exposure through acquisitions in recent years. In our meeting with management we took comfort that profitability in these businesses will be restored over the next two years as Hilton increases prices and generates operational efficiencies, while commodities normalise. Importantly, these businesses improve Hilton's overall offering, which will help drive organic growth in its core single customer business. Although underlying volumes in its core business have been affected by a channel rebalancing and a softening consumer outlook, Hilton has a number of levers to offset this over the next few years and a recovery in its multi-customer businesses and the entry into a new geography will make the greatest difference to Hilton's earnings over the next few years. We reduced our holding but retained a position because Hilton's offering is highly valuable to grocers, offering them a way to meaningfully reduce cost, improve the company's supply chains and deepen its product offering. We believe that the issue is short-term and should not distract from future opportunities which allow Hilton to generate exceptional returns on capital.

Mortgage Advice Bureau (MAB) shares fell, as visibility over MAB's shorter term financial outlook was clouded by turmoil in the mortgage market following the mini budget. In a perfect storm of external factors MAB's share price was hit by fears over sterling weakness, gyrations in interest rate expectations and dislocation in mortgage markets. The rationale for retaining the holding is its position at the strategic forefront of the industry, it is not totally at the mercy of market conditions. From here we are likely to see a strategy acceleration as the business tends to gain market share more rapidly in weak market conditions, as advisers have more need of the support which MAB can provide compared to other mortgage networks. The potential to expand the franchise has been significantly augmented by MAB's capacity to generate leads for network members, reinforced by the acquisition of Fluent which materially strengthens access to national lead sources. Analysts' medium term expectations are unchanged.

The retail sector has had a torrid start to the year on fears of a consumer collapse and we have seen material downgrades across the sector. Share prices, in turn, have plummeted in the face of macro concerns and rising costs. **Seraphine**, the online maternity wear retailer detracted from performance as shares fell sharply following a profit warning due to supply chain pressure and poor management of duties. We exited the position given its poor matrix score, and fears over the ability of the business to manage ongoing supply chain and inflationary challenges against a weakening consumer backdrop.

Portfolio activity

During the year we added eleven new holdings and exited eight.

We added a new position in **Pets at Home** a leading player in the UK pet care market. The business is set to benefit from post-pandemic trends which will serve to underpin group growth into future years. Its customer centric, omnichannel model, spanning healthcare and retail can not only drive incremental share gains but is also differentiated and difficult to replicate. Notwithstanding short term, industry wide pressures on retailers, the long term story remains intact and the business is generally assumed to have better defensiveness than most retailers from the service levels attaching to pet ownership. Clearly an element of that is discretionary spend and subject to weakness, but Pets at Home is in the buildout phase of a number of major upgrades to warehouse, digital and vet practice systems and these should underpin longer term sales growth at a premium rate to 4% market growth. The shares have an attractive free cashflow yield of 5.5% giving a well-funded 3% dividend yield. The balance sheet is net cash, providing optionality for M&A.

We initiated a holding in gas exploration and production business **Energean**. The business is founder run with a strong track record of growing reserves and resources. The company's management is focused on maximising production from its large scale gas focused portfolio to deliver material free cash flow and maximise total shareholder return in a sustainable way. Energean is insulated from commodity price volatility because of contracted floor pricing in gas sale and purchase agreements (GSPAs) providing long-term visibility. Management announced the company will pay $1billion back to shareholders at least by 2025 which will see them paying a sector leading dividend. The policy implies a 7.5% yield from Q4 2022, growing to 15% in 2024/25. This is underpinned by a Free Cash Flow yield of around 25% from 2023-2030 and should enable Energean to continue

Investment Manager's Review

Continued

reducing net debt and to retain flexibility for organic and inorganic growth.

We added a new position in high matrix scoring **FRP Advisory**. A leading mid-market advisory business, which provides services across five different pillars comprising restructuring advisory, corporate finance, debt advisory, forensic services and pensions advisory. FRP benefits from strong regulatory drivers and counter-cyclical services such as litigation, distressed sale and conveyancing. The business is more than just a counter cyclical play, we see a number of levers for growth as FRP provides solutions for the entire corporate lifecycle and its strategy is to develop across five pillars which will help to develop cross-selling capabilities. The market backdrop is becoming more favourable with challenges faced by UK firms greater now than a decade ago. An increase in the number of overleveraged businesses in the UK suggests that a significant proportion are vulnerable to a rise in interest rates and the number of insolvencies and administrations are also slowly increasing as government support ends. The mini budget then caused further market turmoil and heightened near term uncertainty. FRP has highly experienced management, a strong culture and entrepreneurial motivated talent, given them the opportunity to drive its 27% margin higher. Strong cash generation funds the attractive 3.5% dividend yield. FRP has a net cash balance sheet with negligible capex requirements.

We added **4imprint**, the direct marketing business which supplies a range of promotional products and branded apparel. It operates primarily in North America. The business has a strong history of organic sales growth in the highly fragmented US market. Low capital employed results in strong cash flow, particularly relative to peers. 4imprint has delivered an impressive step change in marketing efficiency that management believe stems from sustained investment through the pandemic and a mix shift towards brand awareness from print. The success of marketing efficiency has in part driven a number of upgrades to earnings during 2022. Going forward we believe 4imprint is well placed to take a greater share of the market. The business scores well on our stock screening tool the Matrix, has a net cash balance sheet and its shares yield c.3%. Please see the case study section for further detail in the case study section on page 38.

We also added a holding in **Smart Metering Services** (SMS) the fully integrated energy infrastructure business, who both own and manage meter assets, energy data, grid-scale batteries and other carbon reduction assets. The meters help consumers manage their energy usage and provide inflation linked and visible revenue streams. Inflation linkage has become particularly valuable in the current macro-economic climate. The ongoing roll out of smart meters is predicted to continue to 2025, providing a long term visible revenue stream, and limited need for additional capital. The newer and potentially high growth part of the business is grid like battery storage. The business has a growing pipeline with a huge forecast demand increase for these assets and SMS is well placed to keep a strong share given relationships and experience. We note the increasing debt levels expected over the next few years (from net cash currently), to fund the battery rollout. This is a business which should be able to support structural debt levels given the revenue generating asset base, as its private peers do. The dividend yield is 3.5% with a 10% div CAGR that is 2x cash covered from the existing meter/data assets.

We participated in a placing to add a new holding in **Coats Group**, a global market leader in the manufacture of sewing thread and supplies. The business has a leading c.23% share of the apparel and footwear thread market, partly thanks to its global scale, colour matching technology and longstanding reputation for quality products. Coats has a strong track record of managing its cost base, through increased manufacturing automation, a higher value mix from greater performance materials thread sales, and other self-help initiatives. While the current macroeconomic backdrop could present near term risks, we are positive on the longer term opportunities. Recent investment in inventory management, digitalisation and ESG credentials have driven further market share gains, as an enabler of moving textile industries towards sustainability. The business is poised for the delivery of its strategic projects, which look to optimise the portfolio and footprint. The shares yield 2.9%.

We added a new holding in high matrix scoring **Spirent**. The business provides products and services that enable testing and validation of the global wireless and cloud networks. The mission critical nature of this industry makes the barriers to entry high, which has allowed them to earn outsized returns on capital. Owning through a consumer recession makes sense because telecom carriers and network equipment makers are unlikely to materially reduce their multi-year 5G network build-out plans, given the significant capex already spent on spectrum and research and development. The strength of the order book gives visibility and confidence in the outlook for this year and beyond. We've seen well disciplined cost control and selective price increases, which has allowed the company to protect its margins despite inflationary headwinds. This is a clear sign of the company's pricing power and this is all supported by a dividend yield of 2.4%.

We added a new position in defence name **Chemring**. Over the recent past we watched the management team realign the portfolio and transition to a higher quality business. Strong progress has been made, evidenced by solid earnings growth, strong cash conversion and improved safety metrics. Visibility has improved underpinned by a strong order book and sole source positions on key growth programmes. Such improvements in the business have been evidenced by the delivery of consistent upgrades to earnings. Russia's invasion of Ukraine has seen a sea change in opinion towards defence spending in the West, and it has also seen a reset in terms of how the sector is viewed from an ESG perspective. While there remains much uncertainty as to the speed at which defence spend materialises into orders for the sector, we appear to be entering a multi-year period of elevated defence and security spending and Chemring's refocused portfolio is well aligned to areas of growing spend. In addition to end market strength we see multiple stock specific drivers particularly around 'Roke' a high margin division with expertise around Artificial Intelligence, Machine Learning and Cyber and Data Networks. Chemring's significantly improved balance sheet also provides optionality for M&A alongside returns to shareholders. Chemring has a high matrix score and the shares yield around 2.2%.

We added a new position in the Aberdeen based **Serica Energy**, a North Sea producer of gas with a strong net cash balance sheet and good cash generation. The management team have a strong track record on the improvement of assets, acquiring those and improving the production, efficiency and profitability relative to expectations. Whilst the gas price is a driver and has proved volatile, the structural lack of storage for gas in the UK provides price support. Whilst Serica was set up to be profitable in a low gas price environment, strongly rising gas prices have translated into a record financial performance this year and a large jump in free cash flow which enabled the balance sheet to continue strengthening. Whilst the windfall taxes on the industry announced in Q4 2022 is negative and reduces valuation, balance sheet strength means that this backdrop could lead to a new set of opportunities for nimble players such as Serica with proven track records to find ways to capitalise. This played out in the last week of December when management announced the proposed deal to buy Tailwind plc to create a more balanced and diversified portfolio of assets with a complementary combination of skills. The transaction marks a new phase for growth as it materially increases reserves and production whilst maintaining a significant net cash position for further potential deals. The shares yield c.3%. ESG credentials are strong, reflected in the MSCI A rating.

We added a new position in **Paragon Bank**. The specialist buy-to-let lender in the UK, with strong credit quality and resilient stress testing in tougher macro environments. Compared to previous cycles Paragon has a banking license, and is funded by retail deposits, making it a beneficiary of higher interest rates. Paragon is a defensive, well capitalised secured specialist lender benefitting from highly attractive market economics generating consistent and sustainable Return on Tangible Equity (ROTE) of c.15%. Paragon is highly capital generative which in turn supports a rolling buy-back programme. The company has returned capital of c.£675m to shareholders since 2015, which is 50% of the current market cap. Trading on a 7x P/E the valuation remains attractive with a 5.5% dividend yield.

Investment Manager's Review

Continued

In January we initiated a new position in high matrix scoring and high yielding developer **Watkin Jones**. End market demand for high quality student accommodation, built-to-rent and affordable housing are supportive. The company's value-add is in site selection, design, and construction, and because it is paid on a percentage of completion basis, the return on capital is very high. In early October 2022, Watkin Jones issued a profit warning relating to the forward sale announcements which did not complete in time for the full year, since transitions came to a standstill following the mini budget. In addition to two forward sales being pushed back beyond the planned September completion and into the end of 2023, management also flagged pricing and margin softness on the sales concluded in the second half of 2022. Moreover, the increasingly difficult outlook for near-term pricing and customers' confidence/ability to contract forward sales also led to a 35% downgrade to FY2023, a significant impact on 2023 profitability. Whilst we've always appreciated that contracts could be lumpy in the business, this was an unwelcome miss and called the quality of the business into question. The net cash balance sheet and the capital light model means the risk of financial distress should be low. However, it has cast doubt over the credibility of the management team and we exited the position.

We exited our position in **Moneysupermarket**. A series of concerns ranging from management change to regulation to volatile end markets has led to a gradually declining earnings momentum. The business has had to deal with supply shocks in all of its key segments. While the money and travel segments are seeing recovery post pandemic, trading in the home services division remains difficult as a result of the ongoing energy crisis, and regulatory review clouds the outlook for the insurance market. Whilst the forecast free cash flow should be sufficient to support the dividend, the poor matrix score together with concerns over the future trajectory of the competitive landscape lead us to exit the position.

The June 2022 update from retailer **ProCook** revealed that, while the company is winning market share, the kitchenware sector has struggled in recent months given weaker footfall and conversion. The business has good long term growth prospects; however, the lack of conversion and the uncertainty around how quickly consumer behaviour normalises led us to exit the position. We expect that the company will suffer a decline in its earnings progression this year.

We exited our position in language translation business **RWS** following a strategic review that pointed to slower growth for the business, and near-term margin pressure. We also exited our position in **Clipper Logistics** following the bid from US listed GXO.

The position in **Synthomer** was sold off on concerns around elevated risks of destocking, margin pressure and balance sheet debt, compounded by an uncertainty in the nitrile market outlook. We suspect that increased competitor expansion could lead to some market share loss. The company subsequently posted weak interim results, suggesting a slower recovery in nitriles and a poor outlook, validating our decision to exit.

Since 31 December 2022, we have exited our small position in **CMC Markets** (CMC). While cost overruns are becoming a feature of trading updates in the year, the size of this one was unexpected at CMC. While the business is making progress on its strategic initiative to broaden out and increase visibility, which is the right thing to do longer term, profit warnings and poor communication with the market are becoming a trend so we decided to exit the position.

Halfords management has made progress against its strategy to become an increasingly services led multi-channel specialist, it is leaning into favourable secular trends, and it has strategic and operational initiatives; however, we took the decision to exit the position in view of the consumer backdrop and headwinds from inflation.

We also exited our position in **Strix**, the global leader in the design, manufacture and supply of kettle safety controls, heating controls and water filtration technologies. Due to COVID-19 ("COVID") disruption in China, and demand disruption outside China the company advised that profit after tax was expected to be lower than expected. This was the second cut to earnings in as many months and we were surprised that the first cut wasn't enough. Whilst the dividend yield is high and well covered, supply chain issues in China, linked to the pandemic, are difficult to assess, since the company relies partly on the Chinese zero-COVID policy. This means that earnings visibility will remain low throughout the first half of 2023.

Dividends

Despite the difficult backdrop, the Company has made good progress on dividend income. This is aligned with our sentiment, earlier in the report, that the reporting overall from companies in the portfolio, and the earnings growth being delivered, remains strong. The combination of more cautious attitudes, as well as earnings pressures mean that we are entering a period of earnings, therefore dividend risk, and we are pleased to report resilient dividend income projections for our holdings in these challenging marketing conditions. Seven stocks in the Company's portfolio have issued special dividends this year, a testament to the quality focus within the portfolio.

Fixed Income Portfolio

2022 proved to be the worst year for bond markets in living memory. Stubborn inflation led to higher interest rates across jurisdictions as policymakers swung into action after an extended period of relatively easy monetary policy. The impact of Russia's invasion of Ukraine and the continued effects of COVID were cited as major inflationary forces along with de-globalisation and already tight labour markets. Bond yields rose significantly as a result and corporate bond spreads were wider through the first nine months of the year as a risk-off tone prevailed. The final quarter brought some respite as risk assets rallied and bond yields stabilised, helped by suggestions and evidence that inflation has peaked. In the UK, headline data suggests that price rises are more challenging but even here markets are pricing-in some respite over the coming months. Although policy rates have not yet peaked, financial markets are pricing-in a less aggressive path for the months ahead and potentially some more dovish action from some major central banks.

The bonds in the trust are largely short-dated which provided some defence against the worst bond market outcomes. While the overall sterling market (measured by the BAML Corporate and Collateralised index) was down almost 20% over the course of the year, the bonds in the Company's portfolio fared materially better. While four year bonds issued by Informa and Anglian Water were down 7% and 10% respectively short dated bonds issued by Heathrow and HSBC fared much better with the former generating a positive return over the period. The holdings in the Company are of relatively high quality and the issuers held have performed well over the course of the year.

With policy rates potentially peaking and spreads at relatively wide levels compared to historic averages, bonds appear to offer some good value as we enter the new year. Many investors have avoided the asset class for some time as a result of the low yields on offer and are now being tempted back into the market. Additionally, there is evidence that both pension funds and insurance companies have begun allocating money into the asset class at the end of 2022 and at the start of the new year. This positive technical backdrop is pushing spread levels down once again. A lingering threat of economic slowdown hangs over financial markets but bond markets seem set to deliver some positive returns for the period ahead.

Outlook

UK valuations have de-rated significantly and are at attractive levels relative to other regions. Within that, UK small and mid cap companies look very attractive relative to large caps, with the strong sector focus in the FTSE 100 Index combined with the "risk-off" trade driving significant divergence in index returns this year. The last couple of months has seen the market test some of these levels and we've seen a strong bounce in UK SMID cap stocks through October and November 2022. With some more political stability in the UK, company valuations attractive relative to other geographies, and also a solid degree of overseas revenue exposure in the index, we are starting to see international investors look towards their UK allocations, which have been rock bottom for some time.

We caveat this with some caution; there are still many areas of challenge including inflation, consumer squeeze, China supply uncertainty and many of these might be testing again over the winter period. We were not surprised to see markets decline in December 2022 and believe that may continue before we begin to see a more sustained recovery. Russia's invasion of Ukraine remains an overhang for markets, particularly given its inflationary impacts, and for social and humanitarian reasons more than any, we would be pleased to see a peaceful resolution.

At the time of writing, signals are pointing towards a shallower and perhaps shorter recession than many expected, and the Bank of England has also relaxed its degree of caution stated in November 2022. In the UK we've seen strong reporting from retailers and travel businesses, providing some optimism that the UK consumer is not as cash strapped as the media might suggest.

Investment Manager's Review

Continued

The UK didn't enter this cycle from peak earnings due to sentiment relating to Brexit and GDP growth relative to other regions over recent years. Therefore, there are reasons to believe UK earnings could be nearer troughs than other geographies, and that UK markets could recover earlier in this cycle than we have often seen historically.

There could be a range of outcomes for 2023 and as uncertainty remains, we think our quality focus will prove relatively resilient. In late 2022 there were broad areas of downgrades across the market, although there were, conversely, lots of areas of resilience and strength in the Company's portfolio. This is due to our quality focus, as well as the companies in the portfolio being more self-fulfilling in their growth strategies; which we believe is increasingly valuable when growth becomes scarcer. Lastly, with the derating of growth businesses seen throughout 2022, many of our quality growth businesses are trading on significantly lower valuations than historically and have been taking part strongly in the recent market recovery. This gives us some confidence in relative performance potential during a market recovery,

At this early stage in the economic cycle, we continue to believe many cheaper value cyclical businesses will see earnings pressures over the short term; however, with sentiment low for many sectors in this space, a lighter recession may see share price strength amongst some areas.

The level of uncertainty continues into 2023; however, we expect a lot of the most painful changes in market conditions, seen in early 2022, are behind us. As such, we would hope for a more settled environment, where stock focus returns to markets, and share price returns are less dependent on top-down macro factors. Whilst inflation persists, more stabilisation in interest rate expectations has been observed, and the degree of macro surprise seems far less than in 2022, which we think is supportive for markets.

Amanda Yeaman & Abby Glennie
abrdn Investments Limited
27 March 2023

ESG Engagement by the Manager

Introduction

Whilst ESG factors are not the over-riding criteria in relation to the investment decisions taken by the Manager for the Company, significant prominence is given to ESG throughout the Manager's investment process. The following pages highlight the way that ESG factors are considered by the Manager. These processes are reviewed regularly and liable to change. The latest information is available on the Company's website.

Responsible investing – integration of ESG into the Manager's investment process

"By embedding ESG factors into our active equity investment process we aim to reduce risk, enhance potential value for our investors and foster companies that can contribute positively to the world." abrdn

Core beliefs: assessing risk, enhancing value

Whilst the management of the Company's investments is not undertaken with any specific instructions to exclude certain asset types or classes, the consideration of ESG factors is a fundamental part of the Manager's investment process and has been for over 30 years. It is one of the key dimensions on which the Manager assesses the investment case for any company in which it invests for three key reasons:

Financial returns	ESG factors can be financially material – the level of consideration they are given in a company will ultimately have an impact on corporate performance, either positively or negatively. Those companies that take their ESG responsibilities seriously tend to outperform those that do not.
Fuller insight	Systematically assessing a company's ESG risks and opportunities alongside other financial metrics allows the Manager to make far better investment decisions.
Corporate advancement	Informed and constructive engagement helps foster better companies, protecting and enhancing the value of the Company's investments.

"We believe that the market systematically undervalues the importance of ESG factors. We believe that in-depth ESG analysis is part of both fundamental company research and portfolio construction and will lead to better client outcomes." abrdn

Researching companies: deeper company insights for better investor outcomes

The Manager conducts extensive and high-quality fundamental and first-hand research to fully understand the investment case for every company in its global universe. A key part of the Manager's research involves focusing its extensive resources on analysis of ESG issues. The Manager's investment managers, ESG Equity Analysts and central ESG Investment Team collaborate to generate a deep understanding of the ESG risks and opportunities associated with each company. Stewardship and active engagement with every company are also fundamental to the investment process helping to produce positive outcomes that lead to better risk-adjusted returns.

The Manager's global ESG infrastructure

abrdn has around 150 equity professionals globally. Each systematically analyses ESG risks and opportunities as part of the Manager's research output for each company. Its central team and ESG equity analysts support the investment managers' first-hand company analysis, producing research into specific themes (e.g. labour relations or climate change), sectors (e.g. forestry) and ESG topics to understand and highlight best practice. Examples of thematic and sector research can be found on **abrdn.com/corporate/corporate-sustainability.**

ESG Engagement by the Manager

Continued

Investment Managers	All abrdn equity investment managers seek to engage actively with companies to gain insight into their specific risks and opportunities and provide a positive ongoing influence on their corporate strategy for governance and environmental and social impact.
ESG Equity Analysts	abrdn has dedicated and highly experienced ESG equity analysts located across the UK, US, Asia and Australia. Working as part of individual investment desks – rather than as a separate department – these specialists are integral to pre-investment due diligence and post-investment ongoing company engagement. They are also responsible for taking thematic research produced by the central ESG Investment Team (see below), interpreting and translating it into actionable insights and engagement programmes for our regional investment strategies.
ESG Investment Team	This central team of more than 20 experienced specialists is based in Edinburgh and London, and provides ESG consultancy and insight for all asset classes. Taking a global approach both identify regions, industries and sectors that are most vulnerable to ESG risks and identify those that can take advantage of the opportunities presented. Working with investment managers, the team is key to the Manager's active stewardship approach of using shareholder voting and corporate engagement to drive positive change.

From laggards to best in class: rating company ESG credentials

A systematic and globally-applied approach to evaluating stocks allows the Manager to compare companies consistently on their ESG credentials – both regionally and against their peer group. The Manager captures the findings from its research and company engagement meetings in formal research notes. Some of the key questions include:

- Which ESG issues are relevant for this company, how material are they, and how are they being addressed?
- What is abrdn's assessment of the quality of this company's governance, ownership structure and management?
- Are incentives and key performance indicators aligned with the company's strategy and the interests of shareholders?

Having considered the regional universe and peer group in which the company operates, the Manager's equity team then allocates it an ESG Quality score ("ESG Q Score") between one and five (see below) which will be applied across every stock that the Manager covers globally.

1. Best in class	2. Leader	3. Average	4. Below average	5. Laggard
ESG considerations are a material part of the company's core business strategy Excellent disclosure Makes opportunities from strong ESG risk management	ESG considerations not market leading Disclosure is good, but not best in class Governance is generally very good	ESG risks are considered as a part of principal business Disclosure in line with regulatory requirements Governance is generally good but some minor concerns	Evidence of some financially material controversies Poor governance or limited oversight of key ESG issues Some issues in treating minority shareholders poorly	Many financially material controversies Severe governance concerns Poor treatment of minority shareholders

The Manager also uses a combination of external and proprietary in-house quantitative scoring techniques to complement and cross-check analyst-driven ESG assessments. ESG analysis is peer-reviewed within the equities team, and ESG factors impacting both sectors and stocks are discussed as part of the formal sector reviews. To be considered 'best in class', the management of ESG factors must be a material part of the company's core business strategy. It must provide excellent disclosure of data on key risks. It must also have clear policies and strong governance structures, among other criteria.

Working with companies: staying engaged, driving change

Once abrdn invests in a company, it is committed to helping that company maintain or raise their ESG standards further, using the Manager's position as a shareholder to press for action as needed. abrdn actively engages with the companies in which it invests to help them stay good companies and become even better businesses.

The Manager sees this programme of regular engagement as a necessary fulfilment of its duty as a responsible steward of clients' assets. It is also an opportunity to share examples of best practice seen in other companies and to use the Manager's influence to effect positive change. The Manager's engagement is not limited to the company's management team. It can include many other stakeholders such as non-government agencies, industry and regulatory bodies, as well as activists and the company's clients. What gets measured gets managed – so the Manager strongly encourages companies to set clear targets or key performance indicators on all material ESG risks where appropriate.

The investment process consists of four interconnected and equally important stages.

Monitor	Contact	Engage	Act
Ongoing due diligence · Business performance · Company financials · Corporate governance · Company's key risks and opportunities	**Frequent dialogue** · Senior executives · Board members · Heads of departments and specialists · Site visits	**Exercise rights** · Attend AGM/EGMs · Always vote · Explain voting decisions · Maximise influence to drive positive outcomes	**Consider all options** · Increase or decrease our shareholding · Collaborate with other investors · Take legal action if necessary

ESG considerations within abrdn's Smaller Companies team investment process

abrdn's Smaller Companies team (the "Team") 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. There is a broad understanding within abrdn and the Team 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. As stated above, all of the analysts are required to undertake an ESG quality assessment (ESG Q Score analysis) which will be reflected in the research note provided for each of the companies under coverage. The ESG Q Score of a company is one of the core considerations in ensuring that the traditionally lower risk investment approach continues and portfolios will be weighted towards companies with higher scores.

The Team has a very close relationship with the ESG specialists within abrdn, while at the same time having an on-desk ESG analyst to assist in the above research process and ESG engagements with companies. Tzoulianna Leventi is the on-desk ESG analyst for the Smaller Companies team, having joined the team in 2020. Through the utilisation of third party provided research 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 Managers 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 the actions of companies 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.

Overview of Strategy

Business Model

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

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

Investment Objective and Purpose

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

Investment Policy

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

Gearing

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

Risk diversification

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

Benchmark index

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

Management

The Board has appointed AFML (the "Manager") to act as the alternative investment fund manager ("AIFM"). The Company's portfolio is managed on a day-to-day basis by abrdn Investments Limited ("AIL" or the "Investment Manager") by way of a delegation agreement between AFML and AIL. Both the Manager and the Investment Manager are wholly owned subsidiaries of abrdn plc.

Delivering the Investment Policy

Equity Investment Process

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

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

Fixed Income Investment Process

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

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

Key Performance Indicators ("KPIs")

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

KPI	Description
Performance of net asset value against the benchmark index	The Board considers the Company's net asset value total return figures to be the best indicator of performance over time and is therefore the main indicator of performance used by the Board. The Board measures performance against the benchmark index. The returns over one, three and five years are provided on 29 and a graph showing performance against the benchmark index is shown on page 31.
Revenue return and dividend growth	The Board monitors the Company's net revenue return and dividend growth through the receipt of detailed income forecasts and considers the level of income at each meeting. The Company aims to grow the dividend at a level above CPI when taken over a number of years. A graph showing the dividends and yields over five years is provided on page 30.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. A graph showing the share price total return performance against the benchmark index is shown on page 31.
Share Price Discount/ Premium to NAV	The discount/premium relative to the net asset value per share represented by the share price is monitored by the Board. A graph showing the share price discount/premium relative to the net asset value is shown on page 31.
Ongoing Charges Ratio (OCR)	The Company's OCR is provided on page 92. The Board reviews the OCR, taking account of its total assets.

Principal Risks and Uncertainties

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

The Board also regularly identifies and evaluates newly emerging risks, for example, the geopolitical risks, and monitors these closely, as appropriate for the Company.

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

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

Overview of Strategy

Continued

Description	Mitigating Action
Investment and Market risk The Company is exposed to fluctuations in share prices and a fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds. The Company invests in smaller companies which may be subject to greater volatility than similar larger companies.	The Board has appointed AFML to manage the portfolio within the remit of the investment policy. The Board monitors the results and implementation of the Manager's investment process and reviews the investment portfolio, including diversification and performance, at each meeting.
Investment portfolio management Investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.	The Board is responsible for ensuring that the investment policy is met. The day-to-day management of the Company's assets has been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and monitors compliance with the guidelines through regular reports from the Manager, including performance reporting.
Major market event, climate change or geo-political risk The Company is exposed to stockmarket volatility or illiquidity as a result of a major market shock due to a national or global crisis, geo-political developments or the effects of climate change. The impact of such risks, associated with the portfolio or the Company itself, could result in disruption on the operations of the Company and losses.	External risks over which the Company has no control are always a risk. The Company does what it can to address these risks where possible, not least operationally and to try and meet the Company's investment objectives. The Board is cognisant of its reliance on the operations of the third-party suppliers, including the Manager, to mitigate risks arising from market events, climate change and geo-political developments, such as a global pandemic and Russia's invasion of Ukraine. The Manager has undertaken an assessment of the Company's portfolio and is in close communication with the underlying investee companies in order to navigate and guide the Company through the current challenges. The Manager assesses and reviews the investment risks arising such events on companies in the portfolio, including but not limited to: employee absence, reduced demand, supply chain breakdown, balance sheet strength, increasing inflation, carbon emissions, ability to pay dividends, and it makes investment decisions accordingly. The Manager has extensive business continuity procedures and contingency arrangements to ensure they are able to service their clients, including investment trusts. The services from third parties, including the Manager, have continued to be supplied effectively and the Board will continue to monitor arrangements through regular updates from the Manager. The impact of climate change is not considered to be material to the financial statements as the entire investment portfolio consists of listed equities and corporate bonds and the quoted market (being bid) price is expected to reflect market participants' view of climate change risk.

Description	Mitigating Action
Gearing risk Gearing has the effect of accentuating market falls and market gains. The inability of the Company to meet its financial obligations, or an increase in the level of gearing, could result in the Company becoming over-geared or unable to take advantage of potential opportunities and result in a loss of value to the Company's shares.	The Board monitors the Company's actual gearing levels (including equity gearing) in relation to its assets and liabilities and reviews the Company's compliance with the principal loan covenants. The Company's gearing consists of a £10 million facility comprised of a £5 million five year fixed rate loan and a £5 million three year variable rate loan. As at 31 December 2022, £7 million was drawn down (£5 million fixed rate and £2 million variable interest rate).
Income and dividend risk The ability of the Company to pay dividends and any future dividend growth will depend over the longer term on the level of income generated from its investments and the timing of receipt of such income by the Company. In the shorter term the size of the Company's revenue reserves will determine the extent that shareholder dividend payments can be less volatile than the dividends actually paid by the companies in which the Company invests. Accordingly, there is no guarantee that the Company's dividend objective will continue to be met.	The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting and the Manager has developed detailed and sophisticated models for forecasting and monitoring dividend payments.
Operational risk The Company is dependent on third parties for the provision of services and systems, in particular those of the Manager and the Depositary. Failure by a third party provider to carry out its contractual obligations could result in loss or damage to the Company. Disruption, including that caused by information technology breakdown or other cyber-related issue, could prevent the functioning of the Company.	Written agreements are in place defining the roles and responsibilities of third party providers and their performance is reviewed on an annual basis. The Board reviews regular reports from the Manager on its internal controls and risk management systems, including internal audit and compliance monitoring functions. The Manager reports to the Board on the control environment and quality of service provided by third parties, including business continuity plans and policies to address cyber crime. Further details of internal controls are set out in the Audit Committee's Report on page 49.

Overview of Strategy

Continued

Promoting the Success of the Company

The Board is required to report on how it has discharged its duties and responsibilities under section 172 of the Companies Act 2006 (the "s172 Statement"). Under section 172, the Directors have a duty to promote the success of the Company for the benefit of its members as a whole, taking into account the likely long term consequences of decisions, the need to foster relationships with the Company's stakeholders and the impact of the Company's operations on the environment.

The Board currently comprises four Directors and has no employees or customers in the traditional sense. Without a variety of external stakeholders, the Company can neither exist nor flourish. Our shareholders own us and the Company's Manager, AFML, provides investment management services. A number of other stakeholders support us by providing regulatory and other services, including secretarial, administration, depositary, custodial, banking and audit services. For example, BNP Paribas Trust Corporation UK Limited is the Company's Depository and Ernst & Young LLP is the Company's external auditor.

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

The Board's principal concern has been, and continues to be, the interests of the Company's shareholders and potential investors. The Manager undertakes an annual programme of meetings with the largest shareholders and reports back to the Board on issues raised at these meetings. The Board encourage all shareholders to attend and participate in the Company's AGM and note that they can contact the Directors via the Company Secretary. Shareholders and investors can obtain up-to-date information on the Company through its website and the Manager's information services and have direct access to the Company through the Manager's customer services team or the Company Secretary.

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

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

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

Key decisions and actions during the year to 31 December 2022, which required the Directors to have greater focus on stakeholders included:

Strategic Review

The Board keeps under review the strategic direction of the Company, particularly in view of the prolonged period in which the Company's shares have traded at a material discount to their net asset value which, coupled with the Company being of a small scale, presents challenges in its ability to grow. An announcement was made on 13 February 2023 that the Board intends to undertake a strategic review, including consideration of the combination of the Company's assets with another suitable investment trust, possibly coupled with a cash exit.

Renewal of Debt Facility

The Company has a loan agreement with RBSI to provide it with a £10 million credit facility, £5 million of which is at a fixed interest rate and £5 million at a variable interest rate. The £5 million fixed element of the facility expires at the end of April 2023. During the year, the Board approved the renewal of the £5 million variable rate facility, which will expire in April 2024. The Board believes that the modest use of gearing by the Company is of long term benefit to shareholders.

Directorate and Succession Planning

The Board has continued to progress its succession plans during the year and, following the appointment of Rosalyn Breedy in January 2022 and the retirement of the Chairman in May 2022, there were no requirements for any further action in the financial year. 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.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge represented on the Board in order to allow the Board to fulfil its obligations. Each Director brings different skills and experience to the Board. The Board takes the benefits of diversity into account in its recruitment of new Board members and recent Board changes reflect an appropriate mix of diversity, skills and experience. At 31 December 2022, the Board consisted of two female and two male directors.

Employee, Environmental, Social and Human Rights Issues

The Company has no employees as the Board has delegated the day-to-day management and administrative functions to the Manager. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is outlined in the Statement of Corporate Governance.

Modern Slavery Act

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

Global Greenhouse Gas Emissions

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

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

Viability Statement

The Directors have made an assessment of the viability of the Company, in order to meet the requirements of the UK Code, notwithstanding the announcement on 13 February 2023 of a strategic review and the material uncertainty identified in relation to this matter.

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

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

Overview of Strategy

Continued

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

- The principal risks detailed in the Strategic Report on pages 24 to 25 and the steps taken to mitigate these risks. In particular, the Board has considered the operational resilience of the Company to continue in the current environment and the ability of key third party suppliers to continue to provide essential services to the Company. Third party services have continued to be provided effectively;
- The strategic review announced by the Company on 13 February 2023, the outcomes of which have not been determined as of the date of this Report.
- Notwithstanding the strategic review, the investment objective in the current environment remains attractive. The Company has continued to deliver sustained dividend growth as well as good capital growth over the longer term.
- The outlook for the Company and its portfolio are detailed in the Chair's Statement and the Investment Manager's Review;
- The Company is invested in readily realisable listed securities;
- The level of revenue surplus generated by the Company over a number of years and its ability to achieve its dividend objective; and
- The level of gearing is closely monitored. Covenants are actively monitored and there is adequate headroom in place. The Company has the ability to renew its gearing or repay its borrowings through proceeds from sales of investments.

Following the strategic review, should the Board conclude that a merger or liquidation is not in the best interests of shareholders, the Board believes that the Company remains in a position to continue to generate attractive returns for all shareholders, the Company's long-term performance is satisfactory, and the Company will continue to have access to sufficient capital.

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

Accordingly, taking into account all of these factors, the Company's current position and the potential impact of its principal risks and uncertainties, notwithstanding the outcome of the strategic review, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of this Report.

Dagmar Kent Kershaw,
Chair
27 March 2023

Performance

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value[A]	–33.2	–16.4	–4.0
Share price (based on mid price)[A]	–33.7	–22.6	–2.6
Composite Index[B]	–17.9	–4.2	–2.8
Numis Smaller Companies ex Inv Trust Index	–17.9	–4.2	+1.6

[A] Considered to be an Alternative Performance Measure. Further details can be found on page 93.
[B] FTSE Small Cap ex Inv Trust Index up to 31 December 2019 and Numis Smaller Companies ex Inv Trust Index from 1 January 2020.

Cumulative Performance[A]

Rebased to 100 at 31 December 2012

As at 31 December	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NAV performance	100.0	140.4	133.7	147.5	155.2	201.3	168.3	220.6	204.0	260.9	**169.5**
NAV total return[A]	100.0	145.0	142.0	160.9	174.1	231.4	197.7	265.8	254.1	330.2	**220.9**
Share price performance	100.0	147.2	121.5	141.6	134.3	190.1	147.9	226.4	206.6	247.5	**158.7**
Share price total return[A]	100.0	152.1	129.4	155.8	153.0	223.4	178.2	281.0	266.6	325.6	**216.0**
Composite Index performance[B]	100.0	140.2	133.4	146.7	160.2	180.0	150.1	170.8	160.6	191.6	**152.3**
Composite Index total return[B]	100.0	143.9	140.0	158.2	178.0	205.8	177.4	208.8	199.8	243.6	**200.1**
Numis Smaller Companies ex Inv Trust performance	100.0	133.1	127.0	136.5	147.4	171.3	140.7	170.4	160.2	191.1	**151.9**
Numis Smaller Companies ex Inv Trust total return	100.0	136.9	134.4	148.6	165.1	197.3	167.0	209.1	200.1	244.0	**200.4**

[A] Total return figures are considered to be an Alternative Performance Measure and based on reinvestment of net income.
[B] FTSE Small Cap ex Inv Trust Index up to 31 December 2019 and Numis Smaller Companies ex Inv Trust Index from 1 January 2020.

Performance

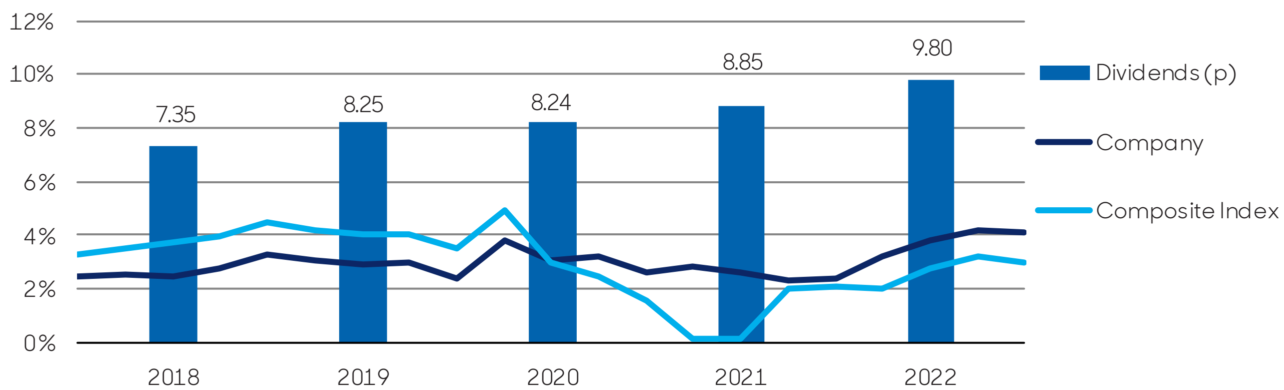
Continued

Ten Year Financial Record

Year to 31 December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue available for Ordinary dividends (£'000)	1,496	1,579	1,666	1,622	1,716	1,997	2,206	1,238	2,143	**2,486**
Per share (p)										
Net revenue return	6.77	7.14	7.54	7.34	7.76	9.03	9.98	5.60	9.69	**11.24**
Net dividends paid/proposed	6.25	6.45	6.65	6.85	7.05	7.35	8.25	8.24	8.85	**9.80**
Total return	74.73	(5.00)	29.96	19.79	85.19	(48.74)	96.49	(16.37)	102.11	**(145.62)**
Net asset value per share	238.0	226.6	249.9	262.9	341.1	285.2	373.9	348.9	442.5	**287.3**
Shareholders' funds (£m)	52.6	50.1	55.3	58.1	75.4	63.1	82.7	77.1	97.8	**63.5**

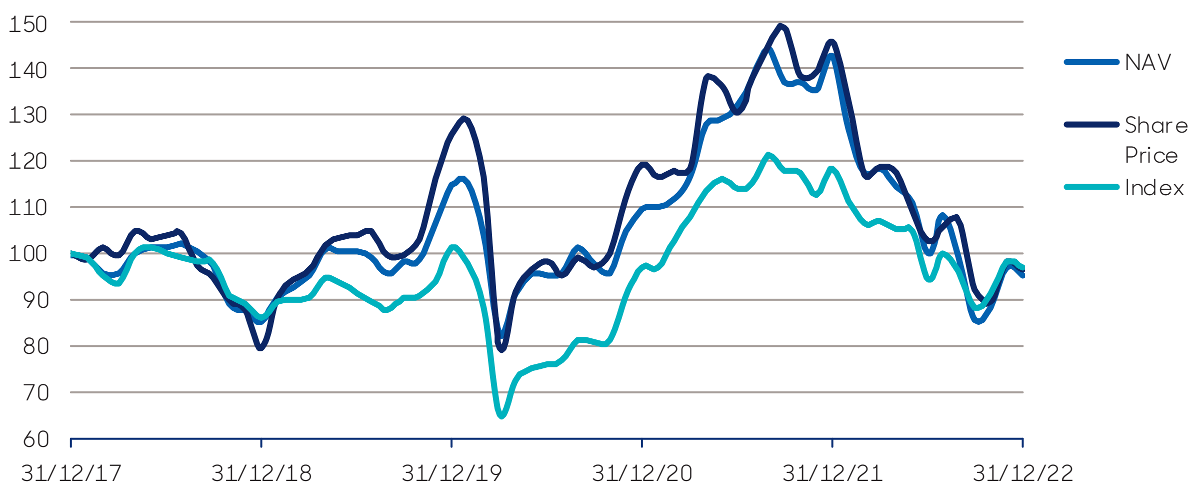
Dividend (p) and Company and Benchmark Yield (%)

Five years to 31 December 2022



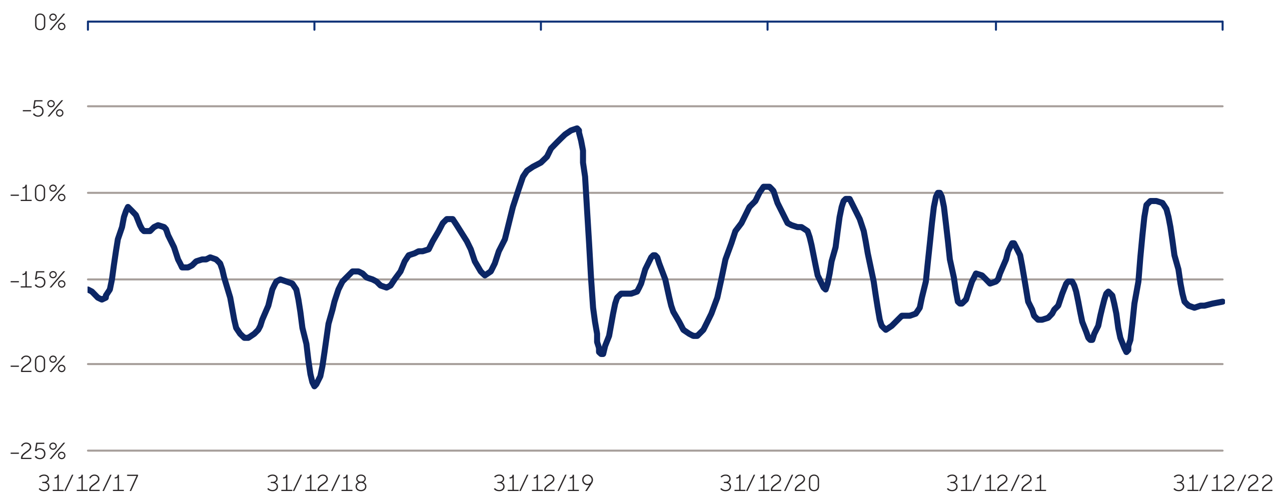
Total Return of NAV and Share Price vs Composite Index

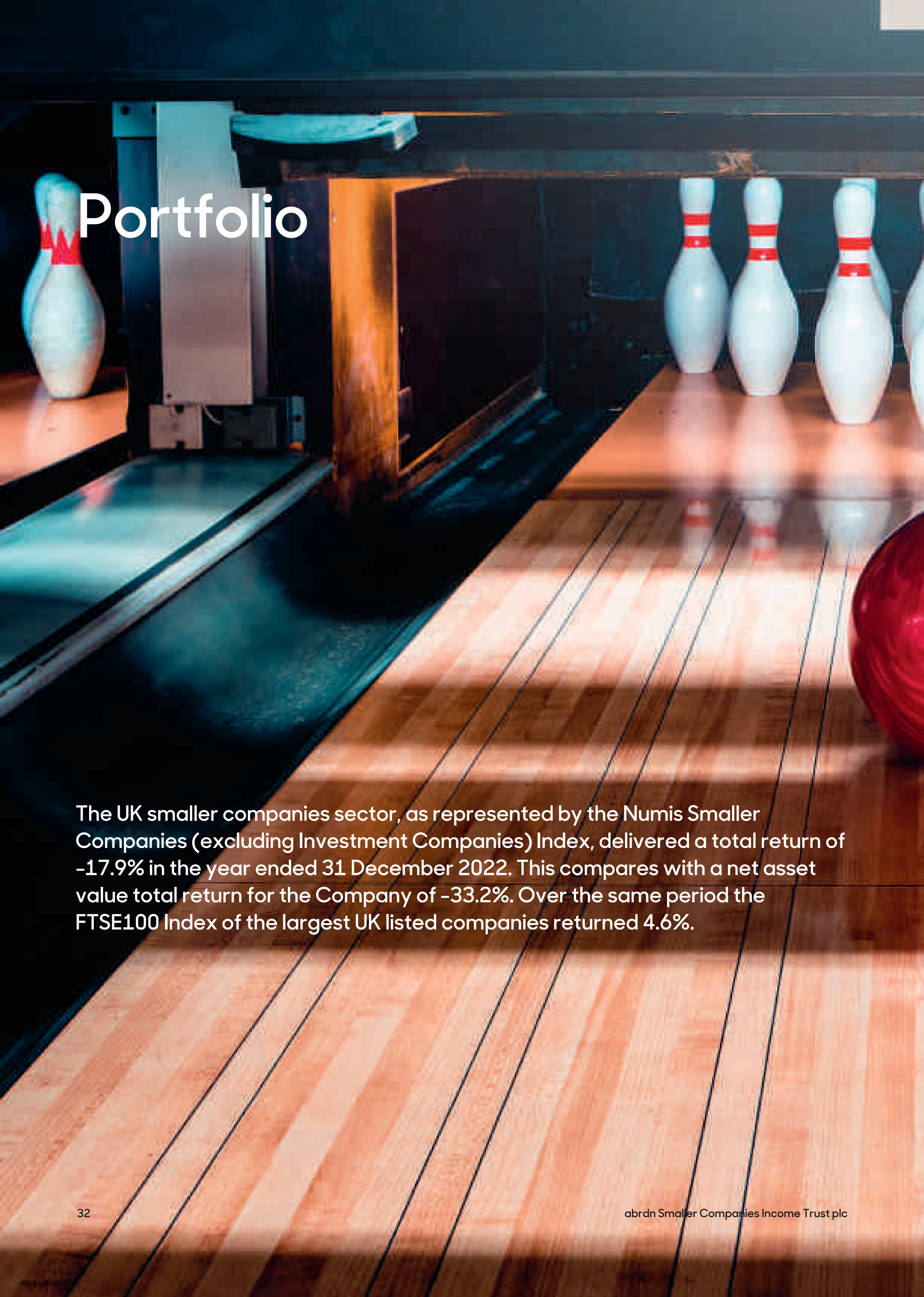
Figures are total return and have been rebased to 100 at 31 December 2017



Share Price Discount to Net Asset Value

Five years to 31 December 2022





Portfolio

The UK smaller companies sector, as represented by the Numis Smaller Companies (excluding Investment Companies) Index, delivered a total return of -17.9% in the year ended 31 December 2022. This compares with a net asset value total return for the Company of -33.2%. Over the same period the FTSE100 Index of the largest UK listed companies returned 4.6%.

The Company invests in **Hollywood Bowl Group**, a leading international leisure operator of ten-pin bowling and mini-golf centres, bringing families and friends together for affordable fun and safe, healthy competition.

Ten Largest Investments

As at 31 December 2022

Telecom Plus

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

Alpha Financial Markets Consulting

Leading global consulting company to assist asset management, wealth management and insurance industries.

Hollywood Bowl

Operator of bowling centres.

discoverIE

International group of businesses that designs, manufactures and supplies highly differentiated components for electrical applicants.

Tatton Asset Management

UK discretionary fund manager providing services to UK's financial advisers enabling them to provide a better service to their clients.

4imprint

Direct marketer of promotional products, with a focus on US.

Softcat

Value added technology reseller in UK.

Energean

International exploration and production company with a focus on natural gas.

Games Workshop

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

AJ Bell

Investment platform.

Equity Investments

At 31 December 2022

Company	Sector classification	Valuation 2022 £'000	Total portfolio %	Valuation 2021 £'000
Telecom Plus	Telecommunications Service Providers	3,184	4.6	3,347
Alpha Financial Markets Consulting	Industrial Support Services	2,523	3.7	2,697
Hollywood Bowl	Travel & Leisure	2,251	3.3	2,050
discoverIE	Technology Hardware & Equipment	2,143	3.1	3,909
Tatton Asset Management	Investment Banking & Brokerage Services	2,122	3.1	3,031
4imprint	Media	2,084	3.0	–
Softcat	Software & Computer Services	1,978	2.9	3,147
Energean	Oil, Gas & Coal	1,923	2.8	–
Games Workshop	Leisure Goods	1,922	2.8	2,876
AJ Bell	Investment Banking & Brokerage Services	1,903	2.8	2,016
Ten largest investments		**22,033**	**32.1**	
Morgan Sindall	Construction & Materials	1,898	2.8	4,284
Somero Enterprises	Industrial Engineering	1,812	2.6	2,596
Safestore	Real Estate Investment Trusts	1,739	2.5	3,243
Greggs	Personal Care, Drug & Grocery Stores	1,714	2.5	2,219
Bytes Technology	Software and Computer Services	1,709	2.5	2,857
Assura	Real Estate Investment Trusts	1,645	2.4	2,051
FDM	Industrial Support Services	1,581	2.3	2,044
Chesnara	Life Insurance	1,566	2.3	1,653
Paragon Banking	Investment Banking & Brokerage Services	1,553	2.3	–
Robert Walters	Industrial Support Services	1,479	2.2	2,853
Twenty largest investments		**38,729**	**56.5**	
Liontrust Asset Management	Investment Banking & Brokerage Services	1,430	2.1	4,058
Sirius Real Estate	Real Estate Investment & Services	1,381	2.0	4,608
Close Brothers	Banks	1,340	1.9	1,796
Serica Energy	Oil, Gas & Coal	1,321	1.9	–
Kesko[A]	Personal Care, Drug & Grocery Stores	1,317	1.9	2,326
Intermediate Capital	Investment Banking & Brokerage Services	1,268	1.8	3,213
Rathbone Brothers	Investment Banking & Brokerage Services	1,237	1.8	1,206
Chemring	Aerospace & Defense	1,200	1.7	–
Pets at Home	Retailers	1,064	1.5	–
Midwich	Industrial Support Services	1,046	1.5	1,161
Thirty largest investments		**51,333**	**74.6**	

Equity Investments

Continued

At 31 December 2022

Company	Sector classification	Valuation 2022 £'000	Total portfolio %	Valuation 2021 £'000
Spirent Communications	Telecommunications Equipment	1,043	1.5	–
Unite	Real Estate Investment Trusts	1,005	1.5	2,216
Hilton Food	Food Producers	993	1.4	2,033
Dunelm	Retailers	971	1.4	2,155
Polar Capital	Investment Banking & Brokerage Services	939	1.4	1,905
Impax Asset Management	Investment Banking & Brokerage Services	937	1.4	1,909
Coats	General Industrials	935	1.4	–
Mortgage Advice Bureau	Finance & Credit Services	914	1.3	1,957
Forterra	Construction & Materials	912	1.3	1,511
Severfield	Construction & Materials	897	1.3	1,014
Forty largest investments		**60,879**	**88.5**	
FRP Advisory	Industrial Support Services	832	1.2	–
Gateley	Industrial Support Services	802	1.2	1,058
Victrex	Chemicals	744	1.1	1,608
XP Power	Electronic & Electrical Equipment	732	1.1	1,838
Smart Metering Systems	Industrial Support Services	694	1.0	–
Hill & Smith	Industrial Metals & Mining	665	1.0	1,015
MJ Gleeson	Household Goods & Home Construction	644	0.9	1,419
Marshalls	Construction & Materials	636	0.9	1,146
Total Equity investments		**66,628**	**96.9**	

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

Other Investments

At 31 December 2022

Company	Valuation 2022 £'000	Total portfolio %	Valuation 2021 £'000
Corporate Bonds[A]			
NGG Finance 5.625%	377	0.6	433
Barclays Bank 9% Perp	317	0.5	346
HSBC Holdings 6.5%	304	0.4	224
Heathrow Funding 5.225%	300	0.4	312
Northumbrian Water 1.625%	263	0.4	–
Anglian Water Service Finance 4.5%	197	0.3	–
Informa 3.125%	180	0.3	–
NatWest Group 2.105%	166	0.2	–
Total Corporate Bonds	**2,104**	**3.1**	
Total Investments	**68,732**	**100.0**	

[A] All investments are listed on the London Stock Exchange (Sterling based).

Distribution of Assets and Liabilities

At 31 December 2022

	Valuation at 31 December 2021 £'000	%	Movement during the year Purchases £'000	Sales £'000	(Losses) £'000	Valuation at 31 December 2022 £'000	%
Listed investments							
Equity investments	100,566	102.8	20,724	(20,720)	(33,942)	**66,628**	**104.9**
Corporate bonds	1,617	1.7	1,009	(300)	(222)	**2,104**	**3.3**
	102,183	104.5	21,733	(21,020)	(34,164)	**68,732**	**108.2**
Current assets	2,968	3.0				**2,127**	**3.3**
Other current liabilities	(316)	(0.3)				**(340)**	**(0.5)**
Loans	(6,995)	(7.2)				**(6,999)**	**(11.0)**
Net assets	97,840	100.0				**63,520**	**100.0**
Net asset value per Ordinary share	442.52p					**287.29p**	

Investment Case Studies

4imprint

4imprint is a direct marketing business which supplies a range of promotional products and branded apparel to individuals in all business areas within all types of organisation. It operates primarily in North America and has a small business in the UK.

The business has a strong history of organic sales growth in the highly fragmented US market. It has its own proprietary ordering & distribution technology and customer satisfaction drives customer loyalty. 4imprint is a high quality business that is financially strong. Low capital employed results in strong cash flow, particularly relative to peers.

4imprint has delivered an impressive step change in marketing efficiency that management believe stems from sustained investment through the pandemic and a mix shift towards brand awareness from print (enabling it to also exit marginal search engine activity). This has been enhanced by prioritised access to product supply amid supply chain strains in the first half of 2022, plus broader post pandemic rebound trends. Still, marketing efficiency has changed significantly, which has produced a number of upgrades to earnings during 2022.

Whilst we have upgraded revenues, the key driver of profit growth is margins. Operating profit is increasing due to increased revenue, the productivity of the reconfigured marketing portfolio and operational gearing relating to semi-variable and fixed costs in the business. In addition, the shift from catalogues to TV in the marketing mix is driving an increase in the revenue per marketing dollar.

We believe that the strength of the model is such that we expect the business to continue the current (and significant) upgrade cycle. Whilst we do acknowledge that the business ultimately sells into cyclical corporate marketing budgets, 4imprint should be better placed for a recession given the macro outlook. We think marketing cost (and therefore earnings) will react very differently to 2009. This ultimately relates to diversification: print, which dominated marketing spend then, is not flexible and does not benefit from material cost reductions in a downturn; however, in contrast, the television (brand) and online business, which dominate now, are flexible and do. Estimates are cautiously set with prudent assumptions about the US economy.

The company's continued investment in marketing over the pandemic, with stronger emphasis on brand, is paying off. Going forward, we believe 4imprint is well placed to take a greater share of the market.

We had an encouraging ESG specific meeting with management to learn more about their sustainability, supply chain due diligence, data protection, carbon neutrality plans and development of staff.

4imprint scores well on our stock screening tool the Matrix, the business has a net cash balance sheet and shares yield around 3%.

Telecom Plus

As the UK's only fully integrated multi-service provider, Telecom Plus derives significant ongoing operating efficiencies by spreading a single set of overheads across multiple revenue streams it receives from its customers. The business has a unique route to market that uses a highly motivated network of over 50,000 self-employed partners and word of mouth to drive customer numbers.

Trading under the brand name 'Utility Warehouse', the customer proposition is compelling. The company bundles together customers' home services - energy, broadband, mobile and insurance - into one, great value, monthly bill, saving customers time and money by providing all their home services in one. The model is based on the motivation of a self-employed salesforce to generate a second income from selling Utility Warehouse services. Salesforce motivation gains momentum when the cost of living rises and a second income increases in significance.

As is evident from performance in 2022, we expect new partner sign ups and new customer sign ups, driving revenue from the bundled services sold, to deliver a growing gross profit. This in turn delivers capacity for investment in further growth. This combination is the perfect situation for Telecom Plus, with direct positive consequences for the company and its shareholders through a generous dividend policy.

The business remains in a strong position post the Energy Price Guarantee (EPG). The government action to cap customer bills using the EPG until April 2024 has a number of important ramifications for Telecom Plus. It effectively embeds the company's competitive advantage in terms of customer growth and it means that the company's churn should be minimal, thus protecting its existing customer base. It also materially reduces the potential for bad debts, which we saw as a key risk this winter. Importantly, the action has no impact on Telecom Plus' long-term wholesale energy supply agreement, which should continue to work well for both parties.

The stock scores well on our stock screening tool, the "Matrix", and with their compelling customer offer and a highly motivated partner network, the company is at the early stages of a multi-year growth opportunity.

As a sizeable supplier of electricity and gas to households throughout the UK, the company has a significant role to play in the transition to net zero. Recognising the challenge ahead, management is fully committed to playing an active part in reducing the company's impact on the climate. Management's ambitions and commitments align with the UN Sustainable Development Goals.

Governance

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.

AJ Bell is a British public limited company that provides online investment platforms and stockbroker services.

Board of Directors

Dagmar Kent Kershaw

Independent Chair

Experience:

Dagmar has over 25 years' investment experience specialising in fixed income, debt and alternative assets. She was head of Intermediate Capital Group's debt business in Europe and Australia from 2008 until 2016, and prior to that the head of structured credit products at Prudential M&G. She began her career in credit markets with Scotiabank and NatWest. She is non-executive chairman of Volta Finance Limited, a non-executive director of Brooks MacDonald Group plc and a senior advisor to Strategic Value Partners.

Length of service:

5 years, appointed in May 2017

David Fletcher

Senior Independent Director
Chairman of the Audit Committee

Experience:

A chartered accountant, with over 20 years' experience of investment banking with JPMorgan, Robert Fleming & Co. and Baring Brothers & Co Limited. He was the group finance director of Stonehage Fleming Family & Partners, a leading independently owned multi-family office, until September 2019. He is chair of JP Morgan Claverhouse Investment Trust and is a non-executive director and chair of the audit committee of Acquila Energy Efficiency Trust and Ecofin US Renewables Infrastructure Trust.

Length of service:

6 years, appointed in August 2016

Rosalyn Breedy

Independent Non-Executive Director

Experience:

Rosalyn is a corporate, funds and financial services lawyer, with 30 years' experience working in private practice, investment banking and at a multi-family office. She is a managing director of Breedy Henderson legal practice, a non-executive director of Lanware Limited, Greengage Global Holding Limited and Artorius Wealth.

Length of service:

1 year, appointed on 5 January 2022

Christopher Metcalfe

Independent Non-Executive Director

Experience:

Christopher, has over 30 years' experience in investment management, having been an investment manager at Newton Investment Management from 2006-2017, and prior to that at Schroder Investment Management and Henderson Administration Group. He is a non-executive director of JP Morgan US Smaller Companies Trust plc and Martin Currie Global Portfolio Trust plc.

Length of service:

1 year, appointed in June 2021

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

Results and Dividends

The financial statements for the year ended 31 December 2022 are contained on pages 68 to 90.

A fourth interim dividend of 2.60p per share was declared by the Board in December 2022 with a record date of 6 January 2023 and ex dividend date of 5 January 2023. It was paid on 27 January 2023. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2023.

Investment Trust Status

The Company is registered as a public limited company and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448. The Company has been approved by HM Revenue & Customs as an investment trust subject to the Company continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the on-going requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 January 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2022 so as to enable it to comply with the on-going requirements for investment trust status.

Individual Savings Accounts ("ISAs")

The Company has conducted its affairs so as to satisfy the requirements as a qualifying security for ISAs. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

Corporate Governance

The Statement of Corporate Governance, which forms part of the Directors' Report is provided on pages 46 to 48.

Capital Structure

At 31 December 2022, the Company had 22,109,765 fully paid Ordinary shares of 50p each (2021– 22,109,765 Ordinary shares). There have been no changes in the Company's issued share capital subsequent to the year end, up to the date of this Report. Each Ordinary share holds one voting right and shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares carry a right to receive dividends. On a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings. There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law.

Management Agreement

The Company has appointed abrdn Fund Managers Limited ("AFML" or the "Manager"), a wholly owned subsidiary of abrdn plc, as its alternative investment fund manager ("AIFM"). AFML has been appointed to provide investment management, risk management, administration and company secretarial services as well as promotional activities. The Company's portfolio is managed by abrdn Investments Limited ("AIL" or the "Investment Manager") by way of a group delegation agreement in place between AFML and AIL. In addition, AFML has sub-delegated promotional activities to AIL and administrative and secretarial services to abrdn Holdings Limited. The management fee, details of which are shown in note 4 to the financial statements, is 0.75% per annum of net assets. The Company is entitled to terminate the management agreement upon giving the AIFM twelve months' prior notice in writing, or immediately upon the payment to the AIFM of six months' fees in lieu of notice.

Directors' Report

Contniued

Substantial Interests

The Board has been advised that the following shareholders owned 3% or more of the issued Ordinary share capital of the Company at 31 December 2022:

Shareholder	Number of shares held	% held
abrdn Trust Savings Plans	4,519,690	20.4
Shires Income plc	3,103,726	13.6
Interactive Investor	2,778,142	12.6
Hargreaves Lansdown	2,343,737	10.6
Philip J Milton & Company	1,466,159	6.6
1607 Capital Partners	917,499	4.2
AJ Bell	911,348	4.1
Charles Stanley	854,643	3.9

In the period between 31 December 2022 and 27 March 2023, the Company was notified that Philip J Milton & Company Plc held 1,550,853 shares (7.0% of shares in issue) as at 14 February 2023. There have been no other changes to the above interests in the Company's shares notified as at 27 March 2023.

Going Concern with Material Uncertainty

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

The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan facility which expires in April 2023 and a variable rate £5 million loan facility which expires in April 2024. Should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of the sale of investments as required. £7 million was drawn down (£5 million fixed rate and £2 million variable interest rate) at the date of writing this report.

The Company's portfolio comprises primarily "Level One" assets (listed on a recognisable exchange and realisable within a short timescale) and the Company has a relatively low level of gearing. As such, the Company has the ability to raise sufficient funds in order to remain within its debt covenants and pay expenses.

Taking the above factors into consideration, the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period until at least 31 March 2024.

Material Uncertainty

The Company announced a strategic review on 13 February 2023. This followed an unsolicited proposal from another investment trust, which led the Board to initiate a formal process in order to ensure that shareholders receive the best possible outcome.

Since the announcement of the strategic review the Company has received proposals from a number of investment companies and investment management groups, almost all of which envisage shareholders being offered the option to roll over some or all of their investment into a successor vehicle or to receive cash for some or all of their shareholding. The strategic review process is now at a stage where a short list of candidates have been requested to prepare detailed proposals and responses to the Board's specific questions. The Board currently believes that it is likely that the strategic review will result in the Company being liquidated and a rollover being implemented pursuant to a tax efficient scheme of reconstruction under section 110 of the Insolvency Act 1986. However, there can be no certainty that this will be the outcome within twelve months from the date of approval of these financial statements and therefore, while there remains a material uncertainty, the Board has prepared the financial statements on a going concern basis.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on page 63. In accordance with Section 418 (2) of the Companies Act 2006, the Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. Additionally, there have been no important events since the year end.

Annual General Meeting

The Annual General Meeting ("AGM") is scheduled to be held on 14 June 2023 at 11.00 am. The Notice of Annual General Meeting and related notes are set out on pages 104 to 107. Amongst the resolutions to be considered at the AGM are:

Section 551 authority to allot shares

Resolution 10, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,111, representing approximately one third of the total Ordinary share capital of the Company in issue as at the date of this document, such authority to expire on 30 June 2024 or, if earlier, at the conclusion of the next AGM of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Disapplication of Pre-emption Provisions

Resolution 11 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 11, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 June 2024 or, if earlier, at the conclusion of the next AGM of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

Purchase of the Company's own Ordinary Shares

Resolution 12, which is a special resolution, will be proposed to renew the Company's authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (3,314,253 Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 June 2024 or, if earlier, at the conclusion of the next AGM of the Company (unless previously revoked, varied or extended by the Company in general meeting.

Recommendation

The Directors believe that the resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 31,786 Ordinary shares, representing 0.1% of the issued Ordinary share capital of the Company.

By order of the Board
Dagmar Kent Kershaw,
Chair
27 March 2023

Corporate Governance Report

Compliance

The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the UK Corporate Governance Code (the "UK Code") published in 2018 which is available on the Financial Reporting Council's website: **frc.org.uk.**

Additionally, the Company is a member of the Association of Investment Companies ("AIC") which has its own Code of Corporate Governance, published in 2019 (the "AIC Code"), that seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: **theaic.co.uk.**

The Board confirms that, during the year to 31 December 2022, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below:

1. the role of the chief executive (UK Code provision 14);
2. executive Directors' remuneration (UK Code provision 40).

For the reasons set out in the AIC Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. The full text of the Company's Corporate Governance Statement can be found on the Company's website: **abrdnsmallercompaniesincome.co.uk.**

The Board

As at the year ended 31 December 2022, the Board comprised four independent Non-Executive Directors. During the year, Robert Lister retired after ten years' service, and Rosalyn Breedy was appointed. Dagmar Kent Kershaw succeeded Robert Lister as Chair of the Company at the conclusion of the last AGM on 5 May 2022 as part of an orderly succession plan.

The Board has no executive Directors as it has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial relationships.

Biographies of the Directors appear on pages 42. These demonstrate the wide range of skills and experience each Director brings to the Board. No Director has a service contract with the Company. Each Director has a signed letter of appointment to formalise the terms of their engagement as a Non-Executive Director. There were no contracts during, or at the end of the year, in which any Director was interested.

The Board has a formal schedule of matters specifically reserved to it for decision including strategy, dividend policy, gearing policy, review of the Manager and corporate governance matters. The Company's investment portfolio is managed within guidelines set by the Board as detailed on page 22.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of the Company Secretary.

Meetings

The Board normally meets at least five times a year, and more frequently where business requires. At each meeting the Board reviews the following:

- Reports from the Manager covering stockmarket environment, portfolio activities, performance and investment outlook;
- Company financial information including revenue forecasts, balance sheet and gearing position;
- Shareholder analysis and relations;
- Regulatory issues and industry matters;
- Reports from other service providers such as brokers and registrars.

The table on page 47 sets out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2022 (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
D. Kent Kershaw	5 (5)	1 (1) [1]	1 (1)	1 (1)
D. Fletcher	5 (5)	2 (2)	1 (1)	1 (1)
C. Metcalfe	5 (5)	2 (2)	1 (1)	1 (1)
R. Lister [2]	2 (2)	1 (1)	-	-
R. Breedy [3]	5 (5)	2 (2)	-	-

[1] Appointed as Chair on 5 May 2022. The position of Chair allowed this Director to be present at the Audit Committee meeting as attendee only.
[2] Retired as Chairman on 5 May 2022. The position of Chairman allowed this Director to be present at the Audit Committee meeting as attendee only.
[3] Appointed on 5 January 2022.

Director's Interests

The Board regularly monitors the interests of each Director and a register of Directors' interests, including potential conflicts of interest, is maintained by the Company. External appointments require prior approval by the Chair. Directors who have potential or actual conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board continually monitors potential conflicts of interests on a regular basis.

The Board adopts a zero tolerance approach to bribery and corruption and the Board and the Manager have implemented appropriate procedures designed to prevent bribery.

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Board takes a zero-tolerance approach to facilitation of tax evasion, whether under UK law or under the law of any foreign country.

The Company maintains insurance in respect of Directors' & Officers' liabilities in relation to their acts on behalf of the Company. Under the Company's articles of association, each Director is entitled to be indemnified out of the assets of the Company to the extent permitted by law.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the Board in order to allow it to fulfil its obligations. The Board also recognises the benefits and is supportive of, and will give due regard to, the principle of diversity in its recruitment of new Board members. 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 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 seek to meet the targets set out in the FCA's Listing Rule 9.8.6R (9)(a).

Board Committees

The Board has appointed three Committees with specific operations as set out below. The terms of reference, which clearly define the responsibilities and duties of each Committee, are available on the Company's website.

The terms of reference of each of the Committees are reviewed by the Board for their adequacy on an ongoing basis.

Audit Committee

The Audit Committee's Report is contained on pages 49 to 51.

Management Engagement Committee

The Board has a good working relationship with the Manager and continually reviews the policies and performance of the Manager. The Management Engagement Committee, which comprises all Directors, undertakes a formal annual review of the performance of the Manager, which encompasses the investment management of the Company's portfolio and provision of administration and other services. The terms of the management agreement, including the level of the fee and notice period, are covered within this review.

The Board considers the continuing appointment of the Manager, on the terms agreed, to be in the interests of shareholders and is satisfied with the current terms of that appointment.

Nomination Committee

The Nomination Committee, which comprises all Directors, reviews Director appraisals, succession planning, new appointments and training. Appointments of new Directors are undertaken following a thorough and open process involving professional recruitment consultants and interviews with the candidates identified. New appointments are identified against the requirements of the Company's business and the need to have a balanced Board with the best range of experience, skills, length of service and backgrounds, including gender.

Appointments are made on merit, taking into account the benefits of diversity, including gender. The Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board, therefore, has not set any measurable targets in relation to the diversity of the Board.

The Board takes the view that independence is not compromised by length of service and that the Company benefits from a balance of Board members with different tenures. The Board is, however, mindful of the importance of having a suitable mapped succession plan and continues to review its succession plan for changes to the Board in the next two to three years. There are no board changes planned in the next financial year.

The Board conforms to the AIC code on tenure. Directors serve broadly for up to three three-year terms but are subject to re-election at the AGM annually. The Chair may serve for longer than nine years on the Board, should the Directors believe that this is in the interest of the Company. In such circumstances, the reasons for extension beyond nine years would be explained both in the Annual Report and at the AGM.

Performance Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In order to review its effectiveness, the Board carries out a process of formal self-appraisal. This process encompasses quantitative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion. The appraisal of the Chair is led by the Senior Independent Director.

The review process carried out in respect of the year ended 31 December 2022 concluded that the Board is functioning well and operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company. There were no issues of concern.

The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers each Director to be independent of the Company's Manager.

The Board has implemented the provisions of the UK Code whereby all Directors of the Company will stand for re-election on an annual basis. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director standing for re-election.

New Directors are given an appropriate induction from the Manager covering legal responsibilities, the Manager's operations and investment trust industry matters. All Directors are entitled to receive appropriate and relevant training.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company and the Company reports formally to shareholders twice a year by way of the annual and half yearly reports. All shareholders have the opportunity to attend and vote at AGMs of the Company at which the Board and the Manager are available to discuss key issues affecting the Company. In addition, the Manager conducts meetings with major shareholders throughout the year to discuss issues relating to the Company which are also attended by the Chair if appropriate. Shareholders and investors may obtain up-to-date information on the Company through its website and the Manager's information services.

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (either the Company Secretary or the Manager) in situations where direct communication is required.

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings. In addition the Company aims to give at least twenty working days' notice to shareholders of the AGM.

ESG Investing

Details of the Manager's ESG engagement is provided on pages 19 to 21.

The UK Stewardship Code and Proxy Voting

The Company supports the UK's 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.

The full text of the Company's response to the 2020 Stewardship Code may be found on the FRC website.

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.

Report of the Audit Committee

The Audit Committee (the "Committee") presents its Report for the year ended 31 December 2022.

Committee Composition

The Committee is chaired by David Fletcher, who is a chartered accountant, and comprises all Directors of the Company with the exception of the Chair of the Company, who attends as a non-voting member. In addition, the Board is satisfied that the Committee as a whole has competence relevant to the investment trust sector. The main responsibilities of the Committee, as set out in its terms of reference include:

- to review the annual and half yearly financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements;
- to assess whether the annual report and financial statements, taken as a whole, is fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to review the effectiveness of the internal control and risk management systems on which the Company is reliant and to consider annually the need for the Company to have its own internal audit function;
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible wrong-doings in matters of financial reporting or other matters;
- to consider the appointment, reappointment, remuneration and terms of engagement of the external auditor;
- to review annually the external auditor's independence, objectivity, effectiveness, resources and qualification; and
- to develop and implement a policy on the engagement of the external auditor to supply non-audit services. There were no non-audit fees paid to the Auditor during the year ended 31 December 2022.

Activities During the Year

The Committee meets twice per year when it reviews the annual and half yearly financial reports in detail. Reports from the Manager's internal audit, risk and compliance departments are also considered by the Committee which cover internal control systems, risk and the conduct of the business in the context of its regulatory environment.

Review of Risks and Internal Control Systems

The Board is responsible for the Company's system of internal control and has reviewed the effectiveness of the Company's risk management and internal control systems. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which include financial, operational, compliance and reputational risks.

The Board has delegated the management of the Company's assets to the Manager within overall guidelines. Risks are identified and documented through a risk management framework by each function within the Manager's activities. The internal control systems operated by the Manager are monitored and supported by its internal audit function which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented. Any weaknesses identified by the Committee are reported to the Board, and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

This process has been in place for the year under review and up to the date of approval of this annual report. It is regularly reviewed by the Board and accords with the Financial Reporting Council's Guidance.

In addition, the Board has adopted its own risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers (see pages 24 and 25). A monitoring system is undertaken whereby the controls to mitigate these risks, and the impact of the residual risks, are assessed on a regular basis. The risk matrix is reviewed formally on a six monthly basis in order to identify emerging risks which may arise.

Report of the Audit Committee

Continued

Note 17 to the financial statements provides further information on financial risks. The key components designed to provide effective internal control are outlined below:

- the Manager prepares monthly forecasts and management accounts, covering investment activities and financial matters, which allow the Board to assess the Company's activities and review its performance;
- 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:
- the Board has considered the need for an internal audit function and, because of the compliance and internal control systems in place within the Manager, to whom it has delegated the Company's day to day operations, has decided to place reliance on the Manager's risk management systems and internal audit procedures;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers and assurance reports on internal controls for service organisations are provided to the Committee. In addition, the Manager's internal audit, risk and compliance departments undertake regular reviews of the Manager's operations and provide reports to the Committee on a six-monthly basis. The Committee has meetings, at least annually, with a senior member of the Manager's internal audit team; and
- an independent depositary, BNP Paribas Trust Corporation UK Limited, has been appointed to safeguard the Company's investments, which are registered in the name of the depositary's nominee company.

The system of internal control and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Significant Accounting Issues

The significant accounting issue considered by the Committee during the year in relation to the Company's financial statements was the valuation, existence and ownership of investments. The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 2b to the financial statements. All investments are in quoted securities, mostly in active markets, are considered to be liquid and have largely been categorised as Level 1 within IFRS 13 fair value hierarchy, other than £2.1m in Level 2 securities. The portfolio holdings and their pricing is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company used the services of an independent depositary (BNP Paribas Trust Corporation UK Limited) during the year under review to hold the assets of the Company. The investment portfolio is reconciled regularly by the Manager and the audit includes independent confirmation of the valuation and existence of all investments.

Other Accounting Issues

Other accounting issues considered by the Committee included:

- Recognition of Investment Income. The recognition of investment income is undertaken in accordance with the stated accounting policies. The Board reviews the Company's income, including the treatment of special dividends, and revenue forecasts.
- Investment Trust Status. Approval of the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1 January 2012 has been obtained and on-going compliance with the eligibility criteria is monitored on a regular basis.
- Consideration of the Company to continue as a going concern with material uncertainty is provided on page 44.

Review of Auditor

Ernst & Young LLP ("EY") were appointed as the Company's external auditor with effect from 28 April 2017. The Committee has reviewed and is satisfied with the independence and the effectiveness of EY as follows:

- The auditor reports on an annual basis the steps it takes to ensure its independence and objectivity and confirms that it has complied with the relevant UK independence guidelines. The level of non-audit services provided by the auditor is assessed by the Committee to take account of the requirement to maintain the independence of auditors. There were no non-audit services in place during the year.
- The Committee considers the experience, continuity and tenure of the audit team, including the audit partner, as well as the tenure of the audit firm. The audit team consists of suitably experienced staff with knowledge of the investment trust sector and there is a process in place for the rotation of the audit partner. The current senior statutory auditor, James Beszant, has served for one financial year (the 2022 year end).
- The Committee assesses the level of audit service annually. The audit plan is reviewed well in advance and subsequent audit findings are reported comprehensively in a timely manner and are resolved satisfactorily. The auditor has a constructive working relationship with both the Board and the Manager.

EY is in the sixth year as auditor to the Company and in accordance with current professional guidelines, the Senior Statutory Auditor was rotated after five years, for the year ended 31 December 2022. The current Senior Statutory Auditor will continue to serve for the next financial year.

The Committee considers EY to be independent of the Company and therefore has recommended that a resolution to re-appoint EY should be proposed for approval by shareholders at the AGM.

For and on behalf of abrdn Smaller Companies Income Trust plc
David Fletcher,
Chairman of the Audit Committee,
27 March 2023

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 in June 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.

The law requires the Company’s auditor to audit certain of the disclosures provided in the Remuneration Report. Where disclosures have been audited, they are indicated as such. The auditor’s opinion is included on pages 57 to 65.

Remuneration Policy

This 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. There have been no changes to the policy during the period of this Report nor are there any proposals for changes in the foreseeable future.

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. Directors’ remuneration is determined by the Board as a whole. The Remuneration Policy will be put to shareholder vote at the AGM on 14 June 2023.

Aggregate Fees

The Company’s articles of association currently limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum subject to any changes to the Retail Prices Index, with the first increase applying from 1 January 2012 (or such other amount as may from time to time be determined by ordinary resolution of the Company).

Review of Directors’ fees

The current level of Directors fees is set out in the table below. Fees are annually reviewed and, if considered appropriate, increased accordingly.

	1 January 2023 £	1 January 2022 £
Chair	**40,500**	37,500
Chairman of Audit Committee	**33,750**	31,250
Director	**28,650**	26,500

Subject to this overall limit, the Board’s policy is that the remuneration of Non-Executive Directors should be sufficient to attract Directors of the quality required to run the Company successfully. The remuneration should also reflect the nature of their duties, responsibilities, the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and a similar investment objective.

Appointments

- The Company only intends to appoint Non-Executive Directors.
- All Non-Executive Directors are appointed under the terms of letters of appointment.
- Directors must retire and be subject to election at the first Annual General Meeting after their appointment, and to re-election annually thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (see table above).
- No incentive or introductory fees will be paid to encourage a directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.
- The Directors are entitled to be re-imbursed for out of pocket expenses incurred in connection with performing their duties including travel expenses.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- No Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.
- 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.

Implementation Report

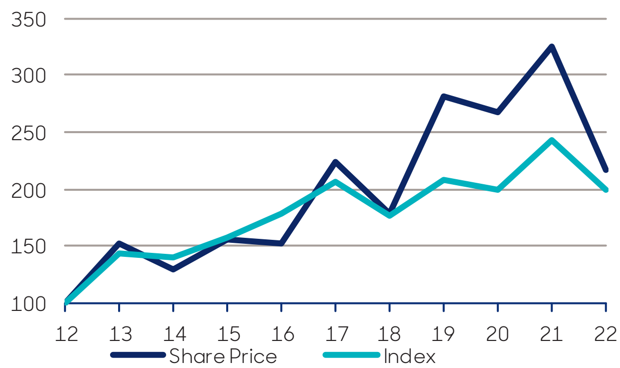
Directors' Fees

The Board carried out a review of the level of Directors' fees during the year and concluded that they should be increased, as shown in the table on page 52, with effect from 1 January 2023. The increase is considered by the Board to be commensurate with the time commitment required by Directors of the Company to adequately discharge their responsibilities, taking into account increasingly complex and onerous legal and regulatory requirements and the current rate of inflation. The last increase in fees was effective from 1 January 2022. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

Fee rates are established by taking advice from external sources as to current market levels.

Company Performance

The following graph shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the Composite Index for the ten year period to 31 December 2022 (rebased to 100 at 31 December 2012). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at AGM

At the Company's last AGM, held on 5 May 2022, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2021. 96.3% of proxy votes were in favour of the resolution, 2.7% were against, and 1.0% abstained. At the Company's AGM held on 26 June 2020, shareholders approved the Directors' Remuneration Policy with 95.2% of proxy votes in favour of the resolution, 3.5% against and 1.3% abstained.

A resolution to receive and adopt the Director's Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 December 2022 will be proposed at the next AGM.

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 on page 54.

Directors' Remuneration Report

Continued

Fees payable (audited)

The Directors who served in the year received the following fees which exclude any applicable employers' insurance.

Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties from the fees referred to in the table below and none of the Directors received taxable benefits.

	2022 £	2021 £
Dagmar Kent Kershaw[1]	**33,685**	25,500
David Fletcher	**31,250**	30,000
Rosalyn Breedy[2]	**26,226**	–
Christopher Metcalfe[3]	**26,500**	14,379
Robert Lister[4]	**13,004**	36,000
Total	**130,665**	117,000

[1] Appointed Chair on 5 May 2022
[2] Appointed on 5 January 2022
[3] Appointed on 7 June 2021
[4] Retired on 5 May 2022

Expenditure by the Company on Remuneration and Distributions to Shareholders

	2022 £	2021 £
Remuneration paid to all Directors	**130,665**	117,000
Distribution to shareholders - by way of dividend[1]	**2,168,000**	1,956,000

[1] See note 8 on page 78 for further details

Annual Percentage Change in Directors' Remuneration

The following table sets out the annual percentage change in Directors' fees for the year ended 31 December 2022.

Dagmar Kent Kershaw[1]	32.1%
Rosalyn Breedy[2]	n/a
David Fletcher	4.2%
Robert Lister[3]	n/a
Christopher Metcalfe[4]	84.3%

[1] Appointed Chair on 5 May 2022
[2] Appointed on 5 January 2022
[3] Retired on 5 May 2022
[4] Appointed on 7 June 2021

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 31 December 2022 and 31 December 2021 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table provided.

	31 Dec 2022 Ord 50p	31 Dec 2021 Ord 50p
Dagmar Kent Kershaw	**9,349**	9,102
Rosalyn Breedy[1]	**0**	n/a
David Fletcher	**12,437**	11,901
Robert Lister[2]	**n/a**	5,200
Christopher Metcalfe[3]	**10,000**	10,000

[1] Appointed on 5 January 2022
[2] Retired on 5 May 2022
[3] Appointed on 7 June 2021

Since 31 December 2022, David Fletcher purchased 127 shares through a dividend re-investment scheme. There have been no other changes to the Directors' interests in the share capital of the Company since the year end and up to the date of this Report. No Director had an interest in any contracts with the Company during the period or subsequently.

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, I confirm that the above Report on Remuneration Policy and Policy Implementation summarises, as applicable, for the year ended 31 December 2022:

- 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.

Dagmar Kent Kershaw
Chair
27 March 2023

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards.

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 in accordance with IAS 8 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK-adopted international accounting standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

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

For and on behalf of abrdn Smaller Companies Income Trust plc
Dagmar Kent Kershaw,
Chair
27 March 2023

Independent Auditor's Report to the Members of abrdn Smaller Companies Income Trust plc

Opinion

We have audited the financial statements of abrdn Smaller Companies Income Trust plc for the year ended 31 December 2022 which comprise the Balance Sheet, Statement of cash flows, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

- In our opinion, the financial statements:
- give a true and fair view of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

Material uncertainty related to going concern

We draw attention to note 2(a) in the financial statements which indicates that the Company is currently engaged in a strategic review. As stated in note 2 (a) these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how our audit responded to the risk relating to going concern:

- We discussed with the Directors the basis of strategic review, the number of proposals they have received from various investment companies and the likelihood of a potential reconstruction under section 110 of the Insolvency Act by 31 March 2024, which is at least 12 months from when the financial statements are authorised for issue.
- We discussed with the Directors and considered whether any other events or conditions, apart from the strategic review discussed in note 2(a) exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and concluded that no such circumstances exist.
- We reviewed whether the Annual Report and Financial Statements transparently presented the risk to the going concern of the Company presented by the strategic review.

We draw attention to the Viability Statement in the Annual Report on pages 27 and 28, which indicates that an assumption to the statement of viability is in respect of going concern considering the material uncertainty arising from the ongoing strategic review. The Directors consider that the material uncertainties referred to in respect of going concern may cast significant doubt over the future viability of the Company. Our opinion is not modified in respect of this matter.

Independent Auditor's Report to the Members of abrdn Smaller Companies Income Trust plc

Continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the Company's going concern assessment process by engaging with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.
- Inspecting the Directors' assessment of going concern, including the forecast, for the period to 31 March 2024 which is at least 12 months from the date the financial statements were authorised for issue. In preparing the forecast, the Company has concluded that it is able to continue to meet its ongoing liabilities as they fall due.
- Reviewing the factors and assumptions, including the impact of the current economic environment and other significant events that could give rise to market volatility, as applied to the forecast and the liquidity assessment of the investments. We considered the appropriateness of the methods used to calculate the forecast and the liquidity assessment and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment for the Company.
- In relation to the Company's borrowing arrangements, our inspection of the Directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Company's portfolio. We recalculated the Company's compliance with debt covenants in the scenarios assessed by the Directors and reviewed the Directors' reverse stress testing in order to identify what factors would lead to the Company breaching the financial covenants.
- Considering the mitigating factors included in the forecast and covenant calculations that are within the control of the Company. We reviewed the Company's assessment of the liquidity of investments held and evaluated the Company's ability to sell those investments to cover the working capital requirements should revenue decline significantly.
- Reviewing the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

In relation to the Company reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the financial statements of the material uncertainty related to the entity's ability to continue as a going concern over a period to 31 March 2024 which is at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital in the Statement of Comprehensive Income • Risk of incorrect valuation or ownership of the investment portfolio.
Materiality	• Overall materiality of £0.64m which represents 1% of net asset value.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

The Board has determined that the most significant future impacts from climate change will be from climate change affecting the Company's investments and their valuations, and potentially shareholder returns. This is explained in the principal and emerging risks and uncertainties section on page 24, which forms part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

Our audit effort in considering climate change was focused on the adequacy of the Company's disclosures in the financial statements as set out in note 2(a) and conclusion that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing as required by UK adopted international accounting standards. We also challenged the Directors' considerations of climate change in their assessment of viability and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of abrdn Smaller Companies Income Trust plc

Continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital in the Statement of Comprehensive (as described on page 50 in the Audit Committee's Report and as per the accounting policy set out on pages 72 - 75). The total income for the year to 31 December 2022 was £3.16m (2021: £2.82m), consisting of dividend income and interest income from investments. The total amount of special dividends received by the Company during the year was £0.29m (2021: £0.21 million), of which £0.29m was classified as revenue (2021: £0.21m) and nil as capital (2021: nil). There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an appropriate accounting treatment. In addition to the above, judgement is required when determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Statement of Comprehensive Income.	**We have performed the following procedures:** We obtained an understanding of the processes and controls surrounding revenue recognition and classification of special dividends by performing walkthrough procedures. For all dividends received and accrued we recalculated the dividend income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share, which was agreed to an independent data vendor. For a sample of dividends received and all dividends accrued, we agreed amounts to bank statements and where applicable, agreed the exchange rates to an external source. For dividends accrued, we reviewed the investee company announcements to assess whether the dividend obligations arose prior to 31 December 2022. For 100% of fixed interest income on corporate bonds, we recalculated the coupon receipts based on the holding at the coupon date and the coupon rate obtained from an external source. We recalculated the fixed interest income accrual, tested that interest accrued evenly throughout the year and that coupon payments were received within the payment terms of each bond. To test completeness of recorded income, we tested that expected dividends for each investee company held during the year had been recorded as income with reference to investee company announcements obtained from an independent data vendor. For all equity investments held during the year, we reviewed the type of dividends paid with reference to an external data source to identify those which were 'special'. We identified seven special dividends, amounting to £0.29m, were received during the year. We have tested the three special dividends, above our testing threshold, amounting to £0.19m, by recalculating the amount received and accrued and assessing the appropriateness of classification as revenue or capital by reviewing the underlying circumstances of the special dividends received.	The results of our procedures identified no material misstatement in relation to the risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Statement of Comprehensive Income.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or ownership of the investment portfolio (as described on page 50 in the Report of the Audit Committee and as per the accounting policy set out on page 72 to 75). The valuation of the investment portfolio at 31 December 2022 was £68.73m (2021: £102.18m) consisting of listed equity and fixed income investments. The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title to the investments held by the Company could have a significant impact on the portfolio valuation and return generated for shareholders. The fair value of listed investments is determined by reference to stock exchange listed market bid prices at close of business on the reporting date.	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding investment title and the pricing of listed securities by performing our walkthrough procedures. For all investments in the portfolio, we compared the market prices to an independent pricing vendor and recalculated the investment valuations as at the year end. We inspected the stale pricing report produced by the Administrator to identify prices that have not changed and verified whether the listed price is a valid fair value through review of trading activity. No stale prices were identified. We agreed the Company's investment holdings to the independent confirmations received from the Company's Depositary at 31 December 2022.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation or ownership of the investment portfolio.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £0.64 million (2021: £0.98 million), which is 1% (2021: 1%) of net asset value. We believe that net asset value provides us with materiality aligned to the key measurement of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £0.48m (2021: £0.74m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Independent Auditor's Report to the Members of abrdn Smaller Companies Income Trust plc

Continued

Given the importance of the distinction between revenue and capital for the Company, we also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.13 million (2021: £0.11 million), being 5% of the revenue column profit before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.03m (2021: £0.05m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 44;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 27 to 28;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 44;
- Directors' statement on fair, balanced and understandable set out on page 56;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 49; and;
- The section describing the work of the audit committee set out on page 49-50.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 56, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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 an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are International Accounting Standards (IAS) in conformity with the Companies Act, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies’ Code and Statement of Recommended Practice and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary, and review of Board minutes and the Company's documented policies and procedures related to controls over the financial reporting process.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to incomplete or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital items in the Statement of Comprehensive Income. Further discussion of our approach is set out in the key audit matter above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures related to controls over the financial reporting process, and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at **frc.org.uk/auditorsresponsibilities.** This description forms part of our auditor’s report.

Independent Auditor's Report to the Members of abrdn Smaller Companies Income Trust plc

Continued

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 28 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ending 31 December 2017 to 31 December 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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.

James Beszant (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27th March 2023

Financial Statements

The Company invests in **Safestore**, the UK's largest and Europe's second largest provider of self-storage.

After reviewing the Company's revenue forecasts and the general investment outlook with the Manager, the Board declared four quarterly dividends totalling 9.80p, which was a 10.7% increase on the 2021 dividend level of 8.85p.

Statement of Comprehensive Income

		Year ended 31 December 2022			Year ended 31 December 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	10	**–**	**(34,164)**	**(34,164)**	–	21,035	21,035
Income	3						
Dividend income		**3,037**	**–**	**3,037**	2,741	–	2,741
Interest income from investments		**90**	**–**	**90**	80	–	80
Other income		**37**	**–**	**37**	1	–	1
		3,164	**(34,164)**	**(31,000)**	2,822	21,035	23,857
Expenses							
Investment management fee	4	**(160)**	**(373)**	**(533)**	(203)	(472)	(675)
Other administrative expenses	5	**(435)**	**–**	**(435)**	(394)	–	(394)
Finance costs	6	**(62)**	**(145)**	**(207)**	(56)	(130)	(186)
Profit/(loss) before tax		**2,507**	**(34,682)**	**(32,175)**	2,169	20,433	22,602
Taxation	7	**(21)**	**–**	**(21)**	(26)	–	(26)
Profit/(loss) attributable to equity holders	9	**2,486**	**(34,682)**	**(32,196)**	2,143	20,433	22,576
Return per Ordinary share (pence)	9	**11.24**	**(156.86)**	**(145.62)**	9.69	92.42	102.11

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

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

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

All items in the above statement derive from continuing operations.

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

Balance Sheet

	Notes	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current assets			
Equities		**66,628**	100,566
Corporate bonds		**2,104**	1,617
Securities at fair value	10	**68,732**	102,183
Current assets			
Cash and cash equivalents		**1,786**	2,592
Other receivables	11	**341**	376
		2,127	2,968
Current liabilities			
Bank loan	12	**(6,999)**	(2,000)
Trade and other payables	12	**(340)**	(316)
		(7,339)	(2,316)
Net current (liabilities)/assets		**(5,212)**	652
Total assets less current liabilities		**63,520**	102,835
Non-current liabilities			
Bank loan	13	**–**	(4,995)
Net assets		**63,520**	97,840
Share capital and reserves			
Called-up share capital	15	**11,055**	11,055
Share premium account		**11,892**	11,892
Capital redemption reserve		**2,032**	2,032
Capital reserve		**34,979**	69,661
Revenue reserve		**3,562**	3,200
Equity shareholders' funds		**63,520**	97,840
Net asset value per Ordinary share (pence)	16	**287.29**	442.52

The financial statements were approved by the Board of Directors and authorised for issue on 27 March 2023 and were signed on its behalf by:

D. Kent Kershaw
Chair

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

Statement of Changes in Equity

Year ended 31 December 2022

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2021		**11,055**	**11,892**	**2,032**	**69,661**	**3,200**	**97,840**
(Loss)/profit for the year		**–**	**–**	**–**	**(34,682)**	**2,486**	**(32,196)**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**(2,124)**	**(2,124)**
As at 31 December 2022		**11,055**	**11,892**	**2,032**	**34,979**	**3,562**	**63,520**

Year ended 31 December 2021

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2020		11,055	11,892	2,032	49,228	2,937	77,144
Profit for the year		–	–	–	20,433	2,143	22,576
Dividends paid in the year	8	–	–	–	–	(1,880)	(1,880)
As at 31 December 2021		11,055	11,892	2,032	69,661	3,200	97,840

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

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

Statement of Cash Flows

	Notes	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Cash flows from operating activities			
Dividend income from investments received		**3,071**	2,699
Interest income from investments received		**102**	98
Interest from AAA-rated money market funds received		**29**	1
Bank interest received		**3**	–
Investment management fee paid		**(447)**	(650)
Other cash expenses		**(476)**	(379)
Cash generated from operations		**2,282**	1,769
Interest paid		**(213)**	(166)
Overseas taxation suffered		**(33)**	(38)
Net cash inflows from operating activities		**2,036**	1,565
Cash flows from investing activities			
Purchases of investments		**(21,738)**	(20,109)
Sales of investments		**21,020**	21,401
Net cash (outflow)/inflow from investing activities		**(718)**	1,292
Cash flows from financing activities			
Equity dividends paid	8	**(2,124)**	(1,880)
Net cash outflow from financing activities		**(2,124)**	(1,880)
Net (decrease)/increase in cash and cash equivalents		**(806)**	977
Analysis of changes in cash and cash equivalents during the year			
Opening balance		**2,592**	1,615
(Decrease)/increase in cash and cash equivalents as above		**(806)**	977
Closing balances		**1,786**	2,592

Notes to the Financial Statements

For the year ended 31 December 2022

1. Principal activity

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

2. Accounting policies

(a) **Basis of accounting.** The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards ("IAS").

Going concern with a Material Uncertainty. The Company's assets consist substantially of securities in companies listed on recognised stock exchanges and in normal circumstances are realisable within a short timescale to meet funding commitments if necessary.

The Board has set gearing limits and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Company has a £10 million credit facility comprised of a fixed rate £5 million loan which expires in April 2023 and a variable rate £5 million loan which expires in April 2024. Should the Board decide not to renew this facility, any outstanding borrowing would be repaid through the proceeds of the sale of investments as required. £2 million of the variable rate loan was drawn down at the date of this report.

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

The Company's portfolio comprises primarily "Level One" assets (listed on a recognisable exchange and realisable within a short timescale) and the Company has a relatively low level of gearing. As such, the Company has the ability to raise sufficient funds in order to remain within its debt covenants and pay expenses.

Taking the above factors into consideration, the Directors reasonably believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period until at least 31 March 2024. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

The Company announced a strategic review on 13 February 2023. This followed an unsolicited proposal from another investment trust, which led the Board to initiate a formal process in order to ensure that shareholders receive the best possible outcome.

Since the announcement of the strategic review the Company has received proposals from a number of investment companies and investment management groups, almost all of which envisage shareholders being offered the option to roll over some or all of their investment into a successor vehicle or to receive cash for some or all of their shareholding. The strategic review process is now at a stage where a short list of candidates have been requested to prepare detailed proposals and responses to the Board's specific questions. The Board currently believes that it is likely that the strategic review will result in the Company being liquidated and a rollover being implemented pursuant to a tax efficient scheme of reconstruction under section 110 of the Insolvency Act 1986. However, there can be no certainty that this will be the outcome within twelve months from the date of approval of these financial statements and therefore, while there remains a material uncertainty, the Board has prepared the financial statements on a going concern basis.

In preparing these financial statements the Directors have considered the impact of climate change risk as an emerging risk as set out on page 24, and have concluded that it does not have a material impact on the Company's investments. In line with IAS, investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the Balance Sheet date and therefore reflect market participants' view of climate change risk.

The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in July 2022 to the extent that it is consistent with IAS.

Significant accounting judgements, estimates and assumptions. The preparation of financial statements requires the use of certain significant accounting judgements, estimates and assumptions which requires the Board to exercise its judgement in the process of applying the accounting policies and are continually evaluated. One area of judgement includes the assessment of whether special dividends should be allocated to revenue or capital based on their individual merits. The Directors do not consider there to be any significant accounting judgements, estimates and assumptions within the financial statements.

New and amended accounting standards and interpretations. There were no new and amended accounting standards and interpretations applied to the financial statements of the Company during the year.

Future amendments to standards and interpretations. At the date of authorisation of these financial statements, the following amendments to Standards and Interpretations were assessed to be relevant and are all effective for annual periods beginning on or after 1 January 2023 and are not expected to have a material impact on the financial statements:

Standards

IAS 1 Amendments – Classification of Liabilities as Current or Non-Current (effective from 1 January 2023)

IAS 1 Amendments – Disclosure of Accounting Policies (effective from 1 January 2023)

IAS 1 Amendments – Non-current Liabilities with Covenants (effective from 1 January 2023)

IAS 8 Amendments – Definition of Accounting Estimates (effective from 1 January 2023)

IAS 12 Amendments – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective from 1 January 2023)

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

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

Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are measured at fair value. For listed investments, the valuation of investments at the year end is deemed to be bid market prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange.

Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

(c) **Income.** Dividend income from equity investments, including preference shares which have a discretionary dividend is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date. Special dividends are allocated to revenue or capital based on their individual merits.

Interest from debt securities, and income from preference shares which do not have a discretionary dividend are accounted for on an accruals basis. Any write-off of the premium or discount on acquisition as a result of using this basis is allocated against the revenue reserve in accordance with the SORP.

Interest receivable on AAA rated money market funds and short term deposits are accounted for on an accruals basis.

(d) **Expenses.** All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% to revenue and 70% to capital (2021 – same), in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. This allocation is reviewed on a regular basis.

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

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

(g) **Taxation**. The tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the Balance Sheet date.

Deferred tax is recognised in respect of all temporary differences at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the Balance Sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise, using tax rates that are expected to apply at the date the deferred tax position is unwound.

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

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

Share premium account. The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising ordinary shares of 50p per share. This reserve is not distributable.

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

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

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

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

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

3. Income

	2022 £'000	2021 £'000
Income from investments		
Dividend income from UK equity securities	**2,367**	2,136
Dividend income from overseas equity securities	**462**	403
Property income distributions	**208**	202
	3,037	2,741
Interest income from investments	**90**	80
	3,127	2,821
Other income		
Bank interest	**4**	–
Interest from AAA-rated money market funds	**33**	1
Total revenue income	**3,164**	2,822

4. Management fee

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	**160**	**373**	**533**	203	472	675

For the year ended 31 December 2022 management services were provided by abrdn Fund Managers Limited ("aFML"). The management fee was calculated at an annual rate of 0.75% of the net assets of the Company, calculated and paid monthly. The balance due to aFML at the year end was £204,000 (2021 – £119,000). The fee is allocated 30% (2021 – 30%) to revenue and 70% (2021 – 70%) to capital.

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

5. Other administrative expenses

	2022 £'000	2021 £'000
Directors' fees	**131**	117
Auditor's remuneration:		
– fees payable for the audit of the annual accounts	**45**	36
Promotional activities[A]	**56**	49
Legal and professional fees	**18**	38
Registrars' fees	**18**	17
Printing and postage	**21**	22
Broker fees	**36**	36
Directors' & Officers' liability insurance	**8**	8
Trade subscriptions	**27**	31
Other expenses	**75**	40
	435	394

[A] Expenses of £56,000 (2021 – £49,000) were paid to aFML in respect of the promotion of the Company. The balance outstanding at the year end was £14,000 (2021 – £37,000).

All of the expenses above, with the exception of the auditor's remuneration, include irrecoverable VAT where applicable. The VAT charged on the auditor's remuneration is included within other expenses.

6. Finance costs

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank loans	**62**	**145**	**207**	56	130	186

7. Taxation

(a) Analysis of charge for the year

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas withholding tax	**21**	**-**	**21**	26	-	26
Total tax charge for the year	**21**	**-**	**21**	26	-	26

(b) Factors affecting tax charge for the year

The UK corporation tax rate was 19% throughout the year (2021 - same). The tax assessed for the year is lower than the corporation tax rate. The differences are explained below:

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before tax	**2,507**	**(34,682)**	**(32,175)**	2,169	20,433	22,602
Taxation of profit/(loss) at the effective standard rate of corporation tax	**476**	**(6,590)**	**(6,114)**	412	3,882	4,294
Effects of:						
Non taxable UK dividend income	**(457)**	**-**	**(457)**	(406)	-	(406)
Capital losses/(gains) disallowed for the purposes of corporation tax	**-**	**6,491**	**6,491**	-	(3,997)	(3,997)
Non taxable overseas income not subject to tax	**(88)**	**-**	**(88)**	(77)	-	(77)
Excess management expenses not utilised	**69**	**99**	**168**	71	115	186
Irrecoverable overseas withholding tax	**21**	**-**	**21**	26	-	26
Total tax charge for the year	**21**	**-**	**21**	26	-	26

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

At the year end, the Company has for taxation purposes only, accumulated unrelieved management expenses and loan relationship deficits of £17,382,000 (2021 - £16,503,000). It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

Notes to the Financial Statements

Continued

8. Dividends

	2022 £'000	2021 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for 2021 of 2.40p (2020 – 2.06p) per Ordinary share	**531**	455
First interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
Second interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
Third interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
	2,124	1,880

The fourth interim dividend of 2022 of 2.60p (2021 – 2.40p) per share was declared after the year end and has therefore not been included as a liability in these financial statements.

The following table sets out the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,486,000 (2021 – £2,143,000).

	2022 £'000	2021 £'000
First interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
Second interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
Third interim dividend for 2022 of 2.40p (2021 – 2.15p) per Ordinary share	**531**	475
Fourth interim dividend for 2022 of 2.60p (2021 – 2.40p) per Ordinary share	**575**	531
	2,168	1,956

9. Earnings per Ordinary share

	2022 p	2021 p
Revenue return	**11.24**	9.69
Capital return	**(156.86)**	92.42
Total return	**(145.62)**	102.11

The returns per share are based on the following figures:

	2022 £'000	2021 £'000
Revenue return	**2,486**	2,143
Capital return	**(34,682)**	20,433
Total return	**(32,196)**	22,576
Weighted average number of shares in issue	**22,109,765**	22,109,765

During the year there were no (2021 – same) dilutive shares in issue.

10. Non-current assets – securities at fair value

	2022 £'000	2021 £'000
Listed on recognised stock exchanges:		
United Kingdom	**67,415**	95,248
Overseas	**1,317**	6,935
	68,732	102,183

	2022 £'000	2021 £'000
Opening book cost	**69,027**	60,215
Investment holdings gains	**33,156**	22,239
Opening fair value	**102,183**	82,454
Analysis of transactions made during the year		
Purchases	**21,733**	20,095
Sales – proceeds	**(21,020)**	(21,401)
(Losses)/gains on investments	**(34,164)**	21,035
Closing fair value	**68,732**	102,183
Closing book cost	**64,486**	69,027
Closing investment holdings gains	**4,246**	33,156
Closing fair value	**68,732**	102,183

The Company received £21,020,000 (2021 – £21,401,000) from investments sold in the year. The book cost of these investments when they was purchased were £26,274,000 (2021 – £11,283,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

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

	2022 £'000	2021 £'000
Purchases	**81**	76
Sales	**18**	16
	99	92

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

11. Other receivables

	2022 £'000	2021 £'000
Accrued income & prepayments	**341**	376
	341	376

None of the above amounts are overdue.

12. Current liabilities

(a) Short-term loan	2022 £'000	2021 £'000
Short-term bank loan	**2,000**	2,000
Fixed rate bank loan	**4,999**	–
	6,999	2,000

The Company has in place a £10 million loan facility with The Royal Bank of Scotland International, London Branch (RBSI) which is comprised of two £5 million tranches. Tranche A is a two year £5 million variable loan facility which expires in April 2024 and £2 million was drawn down at 31 December 2022 at a rate of 4.028% until 25 January 2023. At the date of this Report, £2 million was drawn down at a rate of 5.0268%.

Tranche B is a five year £5 million fixed rate loan facility and was fully drawn down at the year end and will expire in April 2023. The interest on Tranche B is fixed at 2.825% per annum payable quarterly in arrears.

The Directors are of the opinion that the fair value of the loans as at 31 December 2022 are not materially different from the book value.

(b) Trade and other payables	2022 £'000	2021 £'000
Investment management fee	**204**	119
Interest payable	**34**	44
Amounts due to brokers	**–**	5
Sundry creditors	**102**	148
	340	316

13. Non-current liabilities

	2022 £'000	2021 £'000
Fixed rate loan	**–**	4,995

All financial liabilities are measured at amortised cost. The fair value of the fixed rate loan as at 31 December 2021 was calculated at £5,105,000 and would have been classified as a Level 2 liability under Fair Value Hierarchy guidance of IFRS 13 'Fair Value Measurement'.

14. Analysis of changes in financing liabilities during the year

The following table shows the movements during the year of financing liabilities in the Balance Sheet:

	2022 £'000	2021 £'000
Opening balance at 1 January	**6,995**	6,991
Amortisation of arrangement costs	**4**	4
Closing balance at 31 December	**6,999**	6,995

15. Called-up share capital

	Ordinary shares of 50 pence each	
	Number	£'000
Authorised	35,000,000	17,500
Allotted and fully paid		
At 31 December 2022 and 31 December 2021	22,109,765	11,055

16. Net asset value per share

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

	2022	2021
Net asset value attributable (£'000)	**63,520**	97,840
Number of Ordinary shares in issue	**22,109,765**	22,109,765
Net asset value per share (p)	**287.29**	442.52

At the year end there were no (2021 - same) dilutive shares in issue.

17. Financial instruments and risk management

The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise UK and overseas listed equities and corporate fixed interest bonds, cash balances, debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may enter into derivative transactions for the purpose of managing market risks arising from the Company's activities though there was no exposure to derivative instruments during the year.

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

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

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

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

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

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

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

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

Notes to the Financial Statements

Continued

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

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

Management of the risk. The Board will monitor the effects of interest movements closely when making investment and borrowing decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

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

As at 31 December 2022	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Variable rate £'000
Assets				
Corporate bonds	15.08	5.22	2,104	–
Investments in AAA-rated money market funds		3.36	–	1,450
Cash	–	–	–	336
Total assets	–	–	2,104	1,786
Liabilities				
Short-term bank loan	0.07	4.03	(2,000)	–
Fixed rate bank loan	0.32	2.83	(5,000)	–
Total liabilities	–	–	(7,000)	–
Total	–	–	(4,896)	1,786

As at 31 December 2021	Weighted average period rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Variable rate £'000
Assets				
Corporate bonds	30.72	5.56	1,617	–
Investments in AAA-rated money market funds		0.19	–	2,406
Cash	–	–	–	186
Total assets	–	–	1,617	2,592
Liabilities				
Short-term bank loan	0.07	0.85	(2,000)	–
Fixed rate bank loan	1.32	2.83	(5,000)	–
Total liabilities	–	–	(7,000)	–
Total	–	–	(5,383)	2,592

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

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

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

All financial liabilities are measured at amortised cost.

Interest rate sensitivity. The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have variable rates.

If interest rates had been 100 basis points higher or lower (based on the current parameter used by the Manager's Investment Risk Department on risk assessment) and all other variables were held constant, the Company's;

- revenue return for the year ended 31 December 2022 would decrease/increase by approximately £52,000 (2021 – decrease/increase by £44,000). This is mainly attributable to the Company's exposure to interest rates on its variable rate cash balances. These figures have been calculated based on cash positions at each year end.
- The capital return would decrease/increase by £127,000 (2021 – increase/decrease by £105,000) using VaR ("Value at Risk") analysis based on 100 observations of weekly VaR computations of fixed interest portfolio positions at each year end.

Currency risk. A small proportion of the Company's investment portfolio is invested in overseas securities whose values are subject to fluctuation due to changes in exchange rates.

Management of the risk. The revenue account is subject to currency fluctuations arising on dividends received in foreign currencies and, indirectly, due to the impact of foreign exchange rates upon the profits of investee companies. The Company does not hedge this currency risk. The Company does not have any exposure to foreign currency liabilities. No currency sensitivity analysis has been prepared as the Company considers any impact to be immaterial to the financial statements.

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

Management of the risk. It is the Company's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process, as detailed on pages 95 and 96, 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.

Price sensitivity. If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2022 would have increased by £6,663,000 (2021 – £10,057,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, net capital gains attributable to ordinary shareholders for the year ended 31 December 2022 would have decreased by £6,663,000 (2021 – £10,057,000).This is based on the Company's equity investments held at each year end.

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

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

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

At 31 December 2022	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000
Trade and other payables	(340)	–	–	–
Bank loans	(7,000)	–	–	–
Interest on bank loans	(84)	–	–	–
	(7,424)	–	–	–

At 31 December 2021	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000
Trade and other payables	(316)	–	–	–
Bank loans	(2,000)	(5,000)	–	–
Interest on bank loans	(143)	(70)	–	–
	(2,459)	(5,070)	–	–

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

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

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- investment transactions are carried out on a delivery versus payment basis with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- cash is held only with reputable banks with high quality external credit ratings.

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

Notes to the Financial Statements

Continued

Credit risk exposure. In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 December was as follows:

	2022		2021	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Quoted convertibles, bonds and preference shares at fair value through profit or loss	**2,104**	**2,104**	1,617	1,617
Current assets				
Accrued income	**341**	**341**	376	376
Cash and cash equivalents	**1,786**	**1,786**	2,592	2,592
	4,231	**4,231**	4,585	4,585

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

Credit ratings. The table below provides a credit rating profile using Fitch's credit ratings for the quoted bonds at 31 December 2022 and 31 December 2021:

	2022 £'000	2021 £'000
A+	**304**	224
A–	**497**	312
BBB+	**166**	–
BBB	**317**	346
BBB–	**180**	433
BB+	**377**	302
Non-rated[A]	**263**	–
	2,104	1,617

[A] Rated BBB by S&P ratings agency.

Fair value of financial assets and liabilities. The book value of cash at bank and short-term bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices and have been categorised as Level 1 and Level 2 within the Fair Value Hierarchy table on page 89. For details of bond maturities and interest rates, see page 37. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity. As at 31st December 2022, as the debt is close to repayment, the Directors consider its book value to be a reasonable approximation of its fair value. The fair value of the long-term loan had been calculated at £5,105,000 as at 31 December 2021 compared to an accounts value in the financial statements of £4,995,000 (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency.

Gearing. The Company has in place a £10 million unsecured loan facility of which £7 million has been drawn down. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate. Gearing levels are monitored so that they remain within guidelines set by the Board.

18. Fair value hierarchy

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

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

The financial assets and liabilities measured at fair value in the Balance Sheet are grouped into the fair value hierarchy at 31 December 2022 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	**66,628**	**-**	**-**	**66,628**
Quoted bonds	b)	**-**	**2,104**	**-**	**2,104**
Total		**66,628**	**2,104**	**-**	**68,732**

As at 31 December 2021

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	100,566	–	–	100,566
Quoted bonds	b)	–	1,617	–	1,617
Total		100,566	1,617	–	102,183

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

b) **Quoted bonds**. The fair value of the Company's investments in quoted convertibles, bonds and preference shares has been determined by reference to their quoted bid prices at the reporting date. Investments categorised as Level 2 are not considered to trade in active markets.

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

19. Related party transactions

Directors fees and interests. Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on page 54 and fees payable also within note 5 on page 76.

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

At the year end the Company had £1,450,000 (31 December 2021 – £2,406,000) invested in Aberdeen Standard Liquidity Fund (Lux) – Sterling Fund which is managed and administered by abrdn plc. The Company pays a management fee on the value of these holdings but no fee is chargeable at the underlying fund level.

20. Capital management policies and procedures

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

The Company manages its capital 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 capital of the Company consists of equity, comprising issued capital, reserves and retained earnings as per the Company's Balance Sheet on page 69.

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

– the planned level of gearing, which takes account of the Investment Manager's views on the market;

– the level of equity shares in issue; and

– the extent to which revenue in excess of that which is required to be distributed should be retained.

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

The Company does not have any externally imposed capital requirements.

21. Subsequent events

As noted on pages 8 and 72, the Company announced a strategic review on 13 February 2023 and at the date of this Report is currently reviewing its options.

Alternative Performance Measures

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes IFRS and the AIC SORP. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies.

Discount to Net Asset Value per Ordinary Share

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

		2022	2021
NAV per Ordinary share (p)	a	**287.29**	442.52
Share price (p)	b	**240.50**	375.00
Discount	(b-a)/a	**-16.3%**	-15.3%

Dividend cover

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

		2022	2021
Revenue return per share	a	**11.24p**	9.69p
Dividends per share	b	**9.80p**	8.85p
Dividend cover	a/b	**1.15**	1.09

Net gearing

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

		2022	2021
Borrowings (£'000)	a	**6,999**	6,995
Cash (£'000)	b	**336**	186
Investments in AAA-rated money market funds	c	**1,450**	2,406
Amounts due to brokers (£'000)	d	**-**	5
Amounts due from brokers (£'000)	e	**-**	-
Shareholders' funds (£'000)	f	**63,520**	97,840
Net gearing	(a-b-c+d-e)/f	**8.2%**	4.5%

Alternative Performance Measures

Continued

Ongoing charges

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

	2022	2021
Investment management fees (£'000)	**533**	675
Administrative expenses (£'000)	**435**	393
Less: non-recurring charges[A] (£'000)	**(30)**	(25)
Ongoing charges (£'000)	**938**	1,043
Average net assets (£'000)	**71,863**	89,659
Ongoing charges ratio (excluding look-through costs)	**1.31%**	1.16%
Look-through costs[B]	**0.03%**	0.04%
Ongoing charges ratio (including look-through costs)	**1.34%**	1.20%

[A] Professional services comprising new Director recruitment costs and legal fees considered unlikely to recur.
[B] 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 provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations, which includes financing and transaction costs.

Total return

NAV and share price total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. Share price and NAV total returns are monitored against open-ended and closed-ended competitors, and the benchmark, respectively.

Year ended 31 December 2022		NAV	Share Price
Opening at 1 January 2022	a	**442.6p**	375.0p
Closing at 31 December 2022	b	**287.3p**	240.5p
Price movements	c=(b/a)-1	**-35.1%**	-35.9%
Dividend reinvestment[A]	d	**1.9%**	2.2%
Total return	c+d	**-33.2%**	-33.7%

Year ended 31 December 2021		NAV	Share Price
Opening at 1 January 2021	a	**348.9p**	313.0p
Closing at 31 December 2021	b	**442.6p**	375.0p
Price movements	c=(b/a)-1	**26.8%**	19.8%
Dividend reinvestment[A]	d	**3.6%**	3.1%
Total return	c+d	**+30.4%**	+22.9%

[A] NAV total return involves investing the net dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return involves reinvesting the net dividend in the share price of the Company on the date on which that dividend goes ex-dividend.

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Corporate Information

The Company's Investment Manager is a subsidiary of abrdn plc, whose group of companies as at 31 December 2022 had approximately £376 billion of assets under management and administration.

The Company invests in **Tatton Asset Management**, a company that offers a wide range of serices to power the UK's leading financial advisers.

Information about the Investment Manager

abrdn Fund Managers Limited

abrdn Fund Managers Limited ("AFML"), authorised and regulated by the Financial Conduct Authority, has been appointed as the alternative investment fund manager to the Company.

The day-to-day portfolio management has been delegated to abrdn Investments Limited ("AIL"). Both AFML and AIL are subsidiaries of abrdn plc.

The abrdn Smaller Companies team consists of ten investment professionals: six investment managers/analysts, three analysts, and one quantitative analyst who controls the matrix. The team is also supported by an investment specialist who sits within the Equity department.

The team run Small and Mid Cap portfolios across UK, European and Global markets. All portfolios are managed under the same investment process and philosophy, driving consistency across the franchise.

Investment Process

In managing the investment portfolio of the Company, the Smaller Companies Quality Growth Momentum philosophy is enhanced by using abrdn's proprietary screening tool, 'The Matrix', to focus research efforts and stock selection process. The Matrix is a quantitative screening tool assessing potential and current investments. It is a powerful tool in helping the Manager identify a shortlist of investable stocks for further analysis and monitor the performance and prospects of the portfolio on an ongoing basis. Stocks that are identified in this way are then subjected to further analysis and may be selected for the portfolio following discussions with the management team of the investee company.

The Investment Team Senior Managers

Amanda Yeaman (MA Hons) Investment Management Certificate

Amanda is an Investment Manager within abrdn Smaller Companies team with responsibility for research and portfolio management within the UK Small and Mid Cap portfolios. She has over 13 years of investment management experience and joined abrdn in 2019.

Abby Glennie (MA Hons) CFA

Abby is Deputy Head of the Smaller Companies Team, with responsibility for research and analysis of UK listed stocks in the Small and Mid cap sectors, and portfolio management in these areas. She has over 15 years of investment management experience and joined abrdn in 2013.

Tzoulianna Leventi (LLM, LLB, BA) Investment Management Certificate

Tzoulianna is an Investment Analyst within abrdn Smaller Companies team with the responsibility for the ESG research and analysis within the UK Small and Mid Cap portfolios. She has over five years of investment management experience and joined abrdn in 2018.

Information about the Manager

Continued

Investment characteristics

When building a portfolio of smaller companies, the Manager screens stocks using the Matrix and also considers a number of qualitative factors to help identify the best investment opportunities. Engaging with management teams is a core part of the investment process.

1. Quality

Investing in quality businesses is a key focus, and critical to investing in smaller companies in a lower risk manner. This includes analysing cash generation, balance sheet strength, visibility of revenue, the quality of a management team, and ESG factors. We are cautious on many highly cyclical or high leverage companies, or blue sky investments.

2. Sustainable growth

Investing in businesses where we have conviction in earnings growth being sustained over a number of years, accompanied in most cases by strong dividend growth. Revenue growth is often a combination of end Market growth, with stock specific growth factors such as niche products or services, or entering adjacent geographies or end markets.

3. Momentum

Run your winners, Cut your losers. Momentum in earnings and price are drivers of outperformance in smaller companies.

4. Concentrate your efforts

The Matrix helps identify attractive 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. Focuses the managers research efforts on the most attractive and suitable investments.

5. Invest for the long term

Buying tomorrow's larger companies, today. Turnover levels in the portfolio remain low given the long term investment focus.

6. Management longevity

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

7. Valuation aware

Invest in companies which demonstrate positive earnings momentum, which the manager believes is a predictor of future performance. Comfortable paying premium multiples for these quality, higher growth businesses, as value alone is not a driver of outperformance over the long term in Smaller Companies.

Investor 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 retail clients, shares can be bought directly through the abrdn Trust Share Plan, Individual Savings Plan ("ISA") and Investment Plan for Children.

abrdn Plan for Children

abrdn runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

abrdn Trust Share Plan

abrdn runs a Share Plan ("the Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%). Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

abrdn Trust ISA

An investment of up to £20,000 can be made in the tax year 2022/23.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases where applicable. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax and dividend income is tax free.

ISA Transfer

You can choose to transfer previous tax year investments to abrdn which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Dividend Tax Allowance

The annual tax-free allowance on dividend income is £2,000 for the 2022/23 tax year. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Keeping You Informed

Information on the Company may be found on its website (**abrdnsmallercompaniesincome.co.uk**). This provides access to information on the Company's share price performance, capital structure, London Stock Exchange announcements, current and historic annual and half yearly reports and the latest monthly factsheet on the Company issued by the Manager.

Investor Information

Continued

Shareholder Enquiries

For information on the Company or literature and any administrative queries relating to abrdn investment trust products please contact:

abrdn Investment Trusts,
PO Box 11020,
Chelmsford,
Essex, CM99 2DB

Email: **inv.trusts@abrdn.com**
Website: **invtrusts.co.uk**
Telephone: **0808 500 0040**

Terms and conditions for the abrdn investment trust products can be found under the Literature section of the above website.

Company's Registrars

If you have an administrative query which relates to a direct holding in the Company please contact the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: **0371 384 2030.**
(Lines open 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider).

Online Dealing providers and platforms

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company, such as self-invested personal pension (SIPP). 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. Some well-known online providers, which can be found through internet search engines.

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 & Financial Advice Association at: **pimfa.co.uk.**

Financial Advisers

To find an adviser who recommends on investment trusts, visit: **unbiased.co.uk**

Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:

Tel: **0800 111 6768** or
Website: **fca.org.uk/firms/systems-reporting/register/search**
Email: **register@fca.org.uk**

PRIIPS (Packaged Retail and Insurance-based Investment Products)

Investors should be aware that the PRIIPS Regulation requires the Manager, as 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 on the Manager'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 the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Manager's website at **invtrusts.co.uk/en/investmenttrusts/literature-library**.

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 exposure to smaller companies in the United Kingdom, 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, and intends to continue to do so for the foreseeable future, in order that its shares can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments ("NMPIs").

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investment products because they are shares in an investment trust.

Investor Warning

The Board has been made aware by abrdn that some investors have received telephone calls from people purporting to work for abrdn, or third parties, who have offered to buy their investment trust shares. These may be scams which attempt to gain personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from an investor is required to release the supposed payment for their shares. These callers do not work for abrdn and any third party making such offers has no link with abrdn. abrdn never makes these types of offers and does not 'cold-call' investors in this way. If investors have any doubt over the veracity of a caller, they should not offer any personal information, end the call and contact abrdn's investor services centre using the details provided below.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: **fca.org.uk/consumers/scams**

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 trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, 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 97 to 99 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 FCA.

Glossary of Terms

AFML or AIFM or Manager

abrdn Fund Managers Limited ("AFML") is a wholly owned subsidiary of abrdn plc and acts as the alternative investment fund manager ("AIFM") for the Company. It is authorised and regulated by the FCA.

AIL or Investment Manager

abrdn Investments Limited ("AIL" or the "Investment Manager") is a subsidiary company of abrdn plc which has been delegated responsibility for the Company's day-to-day investment management.

Alternative Performance Measures

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

AIC

The Association of Investment Companies.

AIFMD or the Directive

The Alternative Investment Fund Managers Directive (AIFMD) is 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. The Company has been designated as an AIF.

Asset Cover

The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.

Benchmark

This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the Numis Smaller Companies excluding Investment Trusts Index (effective from 1 January 2020) and was the FTSE SmallCap (exc Investment Trusts) Index for the period up to 31 December 2019. The index averages the performance of a defined selection of listed companies over specific time periods. Performance is measured against the Composite Index which is comprised of:

Numis Smaller Companies excluding Investment Trusts Index from 1 January 2020

FTSE SmallCap (exc Investment Trusts) Index to 31 December 2019

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.

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

Earnings per share divided by dividends per share expressed as a ratio.

Dividend Yield

The annual dividend expressed as a percentage of the share price.

FCA

Financial Conduct Authority

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 Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation 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 returns cannot be guaranteed.

Leverage
For the purposes of the Alternative Investment Fund Managers Directive, 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.

Net Asset Value ("NAV")
The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

Net Gearing/Cash
Net gearing/cash is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage.

Ongoing Charges
Ratio of expenses as percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.

PIDD
The pre-investment disclosure document made available by the AIFM in relation to the Company.

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 (P/E) Ratio
The ratio is calculated by dividing the middle-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, loan and short term 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 and the income shares of split capital trusts, irrespective of the time until repayment.

abrdn plc or the Group
The abrdn plc group of companies.

Total Assets
Total Assets as per the balance sheet less current liabilities (before deducting prior charges as defined above).

Total Return
Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

General

Games Workshop is the largest and most successful hobby miniatures company in the world. It is one of the Company's Top 10 Holdings.

Alternative Investment Fund Managers Directive Disclosures (unaudited)

AFML 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 may be found on the Company's website**: abrdnsmallercompaniesincome.co.uk**

There have been no material changes to the disclosures contained within the PIDD since its most recent update in January 2022.

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 on pages 8 to 31, Note 17 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 the AIFM;
- 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 Secretaries, abrdn Holdings Limited on request (see contact details on page 111) and the remuneration disclosures in respect of the AIFM's reporting period for the period ended 31 December 2021 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	2.50:1	2.00:1
Actual level at 31 December 2022	1.19:1	1.22:1

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 is no right of re-use of collateral or any 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 the AIFM 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 FCA in the United Kingdom.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of abrdn Smaller Companies Income Trust plc (the "Company") will be held at Wallacespace Spitalfields, 15-25 Artillery Lane, London, E1 7HA on 14 June 2023 at 11.00 am to transact the following business:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 inclusive will be proposed as ordinary resolutions and resolutions 11 to 12 will be proposed as special resolutions:

Ordinary Business

As ordinary business to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

1. To receive and adopt the reports of the Directors and auditor and the audited financial statements for the year ended 31 December 2022.
2. To approve the Directors' Remuneration Policy.
3. To receive and adopt the Directors' Remuneration Report (except the Directors' Remuneration Policy) for the year ended 31 December 2022.
4. To re-elect Dagmar Kent Kershaw as a Director of the Company.
5. To re-elect Rosalyn Breedy as a Director of the Company.
6. To re-elect Christopher Metcalfe as a Director of the Company.
7. To re-elect David Fletcher as a Director of the Company.
8. To re-appoint Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
9. To authorise the Directors to determine the remuneration of the auditor for the year ending 31 December 2023.

Special Business

10. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,111, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 June 2024 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.
11. That, subject to the passing of resolution 10 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 10 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power: -

    i. expires on 30 June 2024 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and

ii. shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to 10% of the Ordinary shares in issue.

This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 10 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 10 in the notice of meeting" were omitted.

12. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and 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 fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:

i. the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;

ii. the minimum price which may be paid for a share shall be 50p (exclusive of expenses);

iii. the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than 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 for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and

iv. unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 June 2024 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would 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 or contracts as if the authority conferred hereby had not expired.

By order of the Board
abrdn Holdings Limited
Secretary
27 March 2023

Registered Office
1 George Street
Edinburgh, EH2 2LL

Notice of Annual General Meeting

Continued

Notes

i. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.

ii. A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Freepost RTHJ-CLLL-KBKU, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 8LU so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.

iii. The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.

iv. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website euroclear.com. 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.

v. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. 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 Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

vi. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

vii. As an alternative to appointing a proxy using the form of proxy or CREST, members can appoint a proxy online at sharevote.co.uk. In order to appoint a proxy using this website, members will need their Voting ID, Task ID and Shareholder Reference Number, printed on the face of the accompanying form of proxy. Full details of the procedures are given on the website. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at **shareview.co.uk** using their user ID and password. Once logged in click "View" on the "My Investments" page, click on the link to vote and then follow the on screen instructions.

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. The right to vote at a meeting is determined by reference to the Company's register of members at 6.30pm two business days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.

x. As at close of business on 27 March 2023 (being the latest practicable date prior to publication of this notice), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 27 March 2023 is 22,109,765.

xi. 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) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.

xii. Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that 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) 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.

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 the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or 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 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. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

xiv. No Director has a service contract with the Company. Copies of the Directors' letters of appointment 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 Company's registered office and for 15 minutes prior to, and at, the meeting.

xv. Information regarding the Annual General Meeting is available from the Company's website: **abrdnsmallercompaniesincome.co.uk**

xvi. As a member, shareholders have the right to put questions at the meeting relating to business being dealt with at the meeting.

xvii. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

Contact Addresses

Directors
Dagmar Kent Kershaw (Chair)
Rosalyn Breedy
David Fletcher
Christopher Metcalfe

Manager, Secretary and Registered Office

Alternative Investment Fund Manager
abrdn Fund Managers Limited
280 Bishopsgate
London EC2M 4AG

(Authorised and regulated by the FCA)

Investment Manager
abrdn Investments Limited
(Authorised and regulated by the FCA)

Secretary and Registered Office
abrdn Holdings Limited
1 George Street
Edinburgh EH2 2LL

Email: **smallercompaniesincome@abrdn.com**

Points of Contact

Manager – Customer Services Department
Telephone: 0808 500 0040
(Lines open 9.00 am to 5.00 pm, Monday to Friday)

Email: **inv.trusts@abrdn.com**

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder Helpline: 0371 384 2030*
Overseas helpline number: +44 (0)371 384 2030
(*Lines open 8.30 am to 5.30 pm, Monday to Friday excluding bank holidays. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

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

Brokers
Winterflood Securities
The Atrium Building
Cannon Bridge House
25 Dowgate Hill
London EC4R 2GA

Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

United States Internal Revenue Service FATCA Registration Number ("GIIN")
DGR5S1.99999.SL.826

Legal Entity Identifier
213800J6D2TVHRGKBG24

Company Registration Number
SC137448 (Scotland)

Website
abrdnsmallercompaniesincome.co.uk

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Paper | Supporting responsible forestry
FSC® C001785

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 independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all of your Ordinary shares in abrdn Smaller Companies Income 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.

Visit our Website

To find out more about abrdn Smaller Companies Income Trust plc, please visit: **abrdnsmallercompaniesincome.co.uk**