Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2014

Investment Objective

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

Contents

All data throughout this Half Yearly Report are to, or as at, 30 June 2014 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2014 – Total return

Total Return Performance	%
Net Asset Value[1]	**1.0**
Numis Smaller Companies Index (XIC)[2]	**-0.6**
Ordinary Share Price[3]	**-3.0**

	30 June 2014	31 December 2013	30 June 2013
Shareholders’ Funds	£1,134.4m	£1,138.1m	£880.3m
Market Capitalisation	£997.5m	£1,044.4m	£775.5m
Actual Gearing employed	2.8%	2.6%	7.1%
Ordinary Share net asset value	1,189.50p	1,193.22p	921.23p
Ordinary Share price	1,046.00p	1,095.00p	811.50p
Ordinary Share price discount	12.1%	8.2%	11.9%

Cumulative Returns (%) Period to 30 June 2014	NAV[1]	Index[2]	Share Price[3]
1 year	31.8	20.3	31.9
3 years	64.0	52.0	66.8
5 years	165.7	161.2	161.9
10 years	207.5	221.4	205.9
15 years	475.6	311.3	511.0
Since inception on 10 December 1990	2,327.2	1,202.8	2,055.7

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

2 Represents the return on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2014 consisted of 363 companies, the largest market capitalisation of which was £1.503 billion and the aggregate market capitalisation of which was £163 billion.

3 Represents Ordinary Share price with dividends reinvested.

Chairman's Statement

Review of performance

For the six months to 30 June 2014, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of +1.0%, which compares with a total return of -0.6% from your Company's investment benchmark, the Numis Smaller Companies Index excluding Investment Companies (NSCI (XIC)). Meanwhile, the larger company oriented FTSE All-Share Index registered a total return of +1.6%.

The UK economy continued to strengthen during the first half of 2014, but, as financial markets discount in advance, equities had already advanced strongly in 2013 in anticipation of the positive data. The current year has brought an array of geopolitical issues, a continuation of the inflation versus deflation debate, as well as the spectacle of central bank policy continually evolving in response to either unexpectedly strong or weak economic developments. Throw in a resurgent IPO market and a modest pick up in M&A activity and the first six months of 2014 can be described as anything but dull. The Managers' Report provides greater detail on the influences on markets and your Company during the period.

Dividends

One of the important contributors to your Company's good long term record has been its progressive dividend policy. Between your Company's launch in 1990 and December 2013, the dividend grew by 7.8% per annum. Your Board is pleased to announce an increased interim dividend of 7.75p per Ordinary Share for the year to 31 December 2014. This represents a 5.4% increase over 2013. The interim dividend will be paid on 28 August 2014 to Shareholders on the register as at close of business on 8 August 2014. The ex dividend date is 6 August 2014.

ASCoT operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Gearing

During the period, your Board replaced your Company's existing borrowing facilities, which were due to expire on 2 May 2014, with a new £125m facility from The Royal Bank of Scotland plc. The new facility will expire on 15 June 2017 and is on improved terms following an extensive tendering process. Your Board reviews the level of gearing regularly and is comfortable that your Company has access to sufficient liquidity for investment purposes and also to fund share buy-backs, as and when appropriate.

Gearing has shown little change over the period and, at 30 June 2014, stood at 2.8% of Shareholders' funds. It remains your Company's policy to use gearing in a tactical manner.

Board changes

An independent board of directors is undoubtedly one of the principal advantages and differentiators of investment trusts in the broader UK savings industry.

Since its formation back in 1990, your Company has sought to manage succession in a professional and timely manner. With that in mind, and by virtue of having joined your Board in 2004, I will be standing down from your Board in October 2014. It has been a thoroughly enjoyable experience to have served the Shareholders first as a Director and subsequently as Chairman since 2010. It has been a truly remarkable period for financial markets and I have been fortunate to have been surrounded by such able colleagues on your Board. In October 2014, Paul Trickett will succeed me as your Company's Chairman and will help steer your Company through its twenty-fifth year and beyond. In the world of investment trusts, ASCoT is barely beyond the adolescence stage but I consider myself fortunate to have been involved with its

Chairman's Statement

development. I will be remaining as an enthusiastic, long-term shareholder, and look forward to ASCoT's continuing progress.

Annual General Meeting

I am pleased to report that at the Annual General Meeting held on 27 February 2014 Shareholders overwhelmingly voted in favour of the continuation of your Company. Furthermore, all 14 resolutions were passed, including the renewal of authority to buy in up to 14.99% of ASCoT's Ordinary Shares.

Share buy-in

During the six months to 30 June 2014, 18,000 shares were bought in for cancellation for a total consideration of £188,000. Your Board keeps under review the circumstances in which the authority is utilised in relation to the overall objective of seeking to manage the discount.

Alternative Investment Fund Managers Directive

As previously advised, your Board has appointed Aberforth Partners LLP as its Alternative Investment Fund Manager (AIFM). The Managers have received the necessary FCA authorisation and commenced this role on 1 July 2014. Additionally, from the same date, National Westminster Bank plc, was appointed as your Company's Depositary, as required by the Directive, delegating the provision of custody services, as permitted, to The Northern Trust Company, which has acted as your Company's custodian for many years. Furthermore, your Company has entered into a new Investment Management Agreement (IMA) with the Managers to incorporate the obligations imposed under the Directive, though I can confirm that the key commercial terms of the IMA remain unchanged.

Scottish Independence

The referendum on Scottish Independence takes place on 18 September 2014. As your Company is registered in Scotland, your Board has been considering the implications that this might have for shareholders. However, until the result of the referendum is known and results of subsequent negotiations are made available, significant uncertainty persists. Your Board is therefore reluctant to take any pre-emptive and potentially costly action, which would be based on conjecture, and for the time-being prefers to monitor actively the risks, positive or negative, of a different political, economic and regulatory landscape in Scotland. In the event of a "Yes" vote, there is expected to be an extended period of negotiations that will provide both time and greater certainty based on which the Board will implement an appropriate plan of action in the interests of Shareholders as a whole.

Summary

The strength of the UK recovery has surprised many commentators. While 2013 was ushered in amidst fears of a so-called triple dip, 2014 is likely to be ushered out amidst concerns as to what interest rate normalisation looks like. Such uncertainties can provide opportunities for the active investor and often herald shifts in investment styles. Your Board fully understands and supports the Managers' value investing philosophy and the current positioning of the portfolio towards "smaller small" companies. Your Board is confident that the Managers' experience and consistency of approach will continue to benefit ASCoT over the longer term.

Professor Paul R Marsh
Chairman
25 July 2014
paul.marsh@aberforth.co.uk

Managers' Report

Introduction

Most equity markets around the globe have made further progress in 2014. However, in a general theme of reversal, the stronger performing parts of the financial markets in 2013 have tended to under-perform so far this year, while many of last year's weaker performing areas have out-performed in 2014. Thus, in the context of the UK stockmarket, large companies have out-paced small companies: the FTSE All-Share has generated a total return of +1.6%, while the NSCI (XIC) has struggled to maintain its spectacular gains of 2013 with a total return of -0.6%. ASCoT's NAV total return over the six month period was +1.0%. This performance is examined in the Investment Performance section of this report.

In the last annual report, your Managers cautioned that "the absolute returns that ASCoT generates in 2014 and beyond will be heavily influenced by global financial and macro economic factors that can seem very distant from the parochiality of small UK quoted companies". So far in 2014, there have been several such challenges – Cold War tensions in the Ukraine, volatility in emerging markets, renewed hostilities in Iraq, even more concern about the Chinese shadow-banking system, ambiguous US data following a harsh winter, and some confusing commentary on monetary tightening by central bankers. Against this background and in view of 2013's strong returns, 2014's modest decline from small company equities, which tend to be more volatile and less defensive than their larger peers, might be considered unsurprising.

A further challenge, which plays to the theme of reversal, has come from a rally in government bond prices. Ten year gilt yields fell from 3.0% at 31 December 2013 to 2.7% at the end of June. This has come despite a continued improvement in the domestic UK economy, which has recently given rise to speculation about an interest rate increase in 2014. The drop in yields has also been evident in the US and has wrong-footed many market observers, who had been forecasting a continuation of the trends of 2013, when yields rose sharply from 1.8% to 3.0%.

That rise played to the theme of "great rotation", which was addressed in last year's interim report. The "great rotation" describes a strengthening of economic growth and normalisation of monetary conditions that create conditions favourable to equity investment. The relapse in government bond yields is therefore rather inconvenient for this scenario, potentially indicating deteriorating prospects for economic growth. However, this interpretation is complicated by central banks' bond purchases. Although the US is tapering its quantitative easing programme, additional extraordinary stimulus may be forthcoming from the Eurozone: Mario Draghi has indicated that, on top of recently announced measures, quantitative easing will be deployed if the threat of deflation remains.

Perhaps the lesson to learn from the past year or so, with yields testing the 3.0% level, is that economies are still not sufficiently resilient to cope with this degree of effective monetary tightening. Thus, while the logic of the "great rotation" is sound, the conditions necessary for it to play out in full are not yet in place. Financial markets will continue to test the strength of the real economy, but recovery will be drawn out and monetary conditions will remain looser for longer, even in the UK.

Managers' Report

Investment performance

ASCoT's NAV total return over the six months to 30 June 2014 was +1.0%, which compares with -0.6% for the NSCI (XIC). The following table and paragraphs describe the significant influences on the relative performance.

For the six months ended 30 June 2014	Basis points
Stock selection	166
Sector selection	36
Attributable to the portfolio of investments, based on mid prices	**202**
(after transaction costs of 16 basis points)	
Movement in mid to bid price spread	(4)
Cash/gearing	4
Purchase of ordinary shares	–
Management fee	(38)
Other expenses	(3)
Total attribution based on bid prices	**161**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = +1.02%; Benchmark Index = -0.59%; difference is 1.61% being 161 basis points).

Size

The "smaller small" companies within the NSCI (XIC) performed slightly better than the "larger small" companies. An indication of this is the relative performance of the FTSE 250 and the FTSE SmallCap, whose total returns over the first half were -0.4% and +0.4% respectively. This was beneficial to the portfolio's relative performance since it has a relatively low exposure – 48% against 72% for the index – to the "larger small" companies. This positioning is motivated by the more attractive valuations still available among companies with market capitalisations less than £500m.

Despite the superior returns from "smaller smalls" over the past 18 months, the FTSE 250 remains by some way the most buoyant component of the UK stockmarket since the turn of the millennium, having generated a total return of 301%, against 98% for the FTSE SmallCap and 79% for the FTSE All-Share. These performance figures, which are influenced by the peculiarities of the TMT bubble and the global financial crisis, are inconsistent with academic theory, which suggests that investors in smaller companies should be compensated for greater illiquidity by superior returns.

Style

Investment style was also helpful to returns, with the value component of the NSCI (XIC) out-pacing the growth component over the first six months of the year. This reflects specific problems confronting several growth companies over the period, but might be considered surprising from another perspective. The drop in gilt yields and consequent flattening of the yield curve, which were described in the opening section of this report, are often associated with headwinds to the value style. There are two reasons for this. First, falling long term gilt yields should, other things being equal, lower the discount rates applicable to profit streams over the mid to long term; since a greater proportion of growth companies' profits come over the mid to long term, the valuations of growth companies should benefit disproportionately. Second, flattening yield curves can reflect tighter monetary conditions, with short term rates rising to quell inflationary pressures; a subsequent slowdown in economic activity would usually affect value companies disproportionately since they tend to be more cyclical, lacking the secular growth opportunities of growth companies.

Corporate activity

The quietest year for small cap M&A in Aberforth's history was 2013, when only five acquisitions of NSCI (XIC) constituents were completed. However, as confidence has continued to improve around board room tables, there has been a pick-up in activity in 2014. As at 30 June, bids for 13 companies had either completed or were outstanding. The acquirers tend to be overseas companies. The average premium to the share price before announcement was 30%. Five of these were holdings in the portfolio. However, the real excitement for the investment bankers has come from the continued strength of the IPO market, which started in earnest in the middle of 2013. In the first half of 2014, 22 companies potentially eligible for inclusion in the NSCI (XIC) had floated on the main market of the London Stock Exchange. The combined market capitalisation of these companies was £15bn, roughly double the value of the 13 companies subject to M&A. A continuation of the recent rate of IPOs would render 2014 the busiest year since 2000.

Your Managers tend to be wary of IPOs since the vendors, typically private equity houses, should know a lot more about the businesses than the acquirers. Moreover, IPO markets in full flood are particularly dangerous, as prices tend to be set by the vendors. Over-ambitious valuations can result in disappointing share price performance of the companies once on the stockmarket, an increasingly frequent phenomenon as the year has progressed. Within the portfolio at the end of the period were three 2014 IPOs. One of these positions was taken after the company had floated and its share price had dropped sharply. Other opportunities among the recent IPOs may be forthcoming over the coming year or so if IPO prices do indeed turn out to have been over-ambitious.

The likely net effect of M&A and IPOs is a year of re-equitisation, as the stock of small company equity capital is replenished. This follows four years of de-equitisation. While the enthusiastic reception for IPOs might be viewed as part of the "great rotation", it could be argued that the supply-demand balance is being altered to the disadvantage of small company valuations.

Results

The 36.9% total return enjoyed by the NSCI (XIC) in 2013 came despite a lack of profits growth. There are 358 companies within the NSCI (XIC), of which Aberforth tracks closely 282. This "tracked universe" represents 98% by value of the total index. Of the 282, 138 have December year ends and reported their 2013 results in the first quarter of this year. The aggregate sales of these companies rose by 1% in 2013, while their operating profits dropped by 3%. There is a distortion from 21 resources companies: with these stripped out of the analysis, the sales of the remainder grew by 2% and the operating profits by 4%. Nevertheless, these are hardly rates of growth that justify last year's surge in share prices. The market was therefore prepared to look further ahead. The outlook for 2014 does seem brighter, as the domestic economy, which accounts for roughly 50% of the aggregate sales of NSCI (XIC) constituents, continues to recover.

Managers' Report

However, as factors such as sterling's strength gnaw away at the value of sales generated outside the UK, the small cap universe continues to witness net downgrades to profit estimates. It is by no means certain that the market would take a repeat of 2013 with such insouciance.

However, more positive evidence is emerging for the medium term. The 138 companies noted above are investing. The ratio of aggregate capital expenditure to depreciation was 1.8x in 2013. A number above 1.0x suggests that companies are doing more than just replacing existing productive capacity. Even when the resources companies are again eliminated, the ratio for the remainder is a healthy 1.4x: the majority of companies in this cross section of small UK quoted companies, contrary to the rhetoric of some commentators, do appear to be investing for future growth.

Income

Despite the disappointing progress of profits in 2013, the income performance of small companies has remained strong. Another year of mid to high single digit growth across the asset base is plausible, as is a continuation of the phenomenon of special dividends. The impact of this encouraging backdrop on ASCoT's Income Statement can be affected by the timing of special dividends, the level of gearing and changes to the portfolio. However, the positive underlying dividend experience among investee companies is evident from the following analysis. Within the portfolio of 95 companies, 46 increased their most recent dividends, 12 made no change, 25 currently pay no dividend, 5 cut, 4 are IPOs that have not yet paid a dividend, and 3 pay dividends but have no meaningful comparison. The number of nil payers, which account for 23% by value of the portfolio, is unusually high and helps boost the portfolio's average historic dividend cover, which, at 3.2x, is towards its highest ever level. Your Managers have not lost their fondness for dividends. However, it seems likely that the market, inspired by quantitative easing to a pursuit of yield in recent years, has overlooked companies that at the present time are not paying dividends. Crucially, most of the current nil yielders should be capable of returning to the dividend register over the short to medium term. As they do so, the average dividend cover of the portfolio will decline but ASCoT's income account will benefit.

Strong balance sheets

Balance sheets across the small company universe remain among the strongest seen in ASCoT's history. At 30 June, 36% and 33% of the portfolio and the tracked universe respectively were represented by companies with net cash on their balance sheets. In the case of the portfolio, this robustness was a feature even before the onset of the global financial crisis. And it persists despite encouraging evidence that company boards are willing to put some of their cash resource to use, either through higher investment or through returns of cash to shareholders in the form of special dividends or buy-backs.

Turnover

Portfolio turnover over the 12 months to 30 June 2014 was 38%. This is higher than ASCoT's long term average of c.35%. The most important influence on this is your Managers' value investment style. When equity prices rise sharply, as they have over the past 18 months, target valuations for portfolio companies are reached: the natural inclination of the value investor is to attempt to redeploy the capital invested in such companies into more attractively valued companies. Since a repeat of the very strong markets of 2013 is improbable in the near term at least, it is likely that ASCoT's portfolio turnover will subside over coming months. It is noteworthy that a portion of turnover is effectively forced: when holdings leave the NSCI (XIC) after growing too large or when holdings are subject to M&A, your Managers are required to sell. Excluding this influence, ASCoT's long term portfolio turnover is c.25%.

Active share

Active share, or active money, is a measure of how different a portfolio is from its benchmark and thus of fund managers' conviction in the stocks they choose to own. It may be calculated by summing the active weights (i.e. the portfolio weight less the benchmark weight) for each stock in the portfolio. A higher active share ratio implies a lower probability that the portfolio will perform like the benchmark. Active share may be flattered by owning stocks that are not constituents of the benchmark; since your Managers sell stocks that grow too large to be included in the NSCI (XIC), ASCoT's level of mismatch with the benchmark is low. Indeed, the present mismatch is accounted for by companies that will be eligible for membership of the NSCI (XIC) on its next rebalancing. Your Managers target an active share ratio of at least 70%, though will tolerate a temporarily depressed number. At 30 June 2014, the ratio for ASCoT's portfolio stood at 73%. Your Managers believe that this demonstrates conviction in ASCoT's holdings. However, while performance should differ from that of the benchmark, there is no guarantee that it will do so in a positive fashion!

Valuation & conclusion

	30 June 2014		30 June 2013	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**95**	**358**	98	383
Weighted average market capitalisation	**£628m**	**£812m**	£566m	£882m
Price earnings ratio (historic)	**13.4x**	**15.2x**	11.4x	14.3x
Dividend yield (historic)	**2.3%**	**2.4%**	2.9%	2.5%
Dividend cover	**3.2x**	**2.8x**	3.0x	2.8x

The very strong performance from equities in 2013, coupled with lacklustre profit growth, resulted in a substantial upwards revaluation. This re-rating was by no means confined to small UK quoted companies, but is evident in the movement in the NSCI (XIC)'s historic PE from 12.8x at the start of 2013 to 15.2x at 30 June 2014. This most recent multiple represents a 13% premium to the average historic PE of the NSCI (XIC) over ASCoT's 24 year history of 13.4x. It also represents a 3% premium to the 14.8x historic PE of large companies at the end of June, which compares with an average discount of small to large over ASCoT's history of 8%.

There are potentially extenuating circumstances. Other things being equal, the very strong balance sheets enjoyed by small companies would merit a higher PE. And, in relation to large companies, radically different sector exposures can be more important than a direct size effect in explaining relative valuations. But it is difficult to argue that small companies as a whole are now cheap, at least on the basis of historic PE ratios. Of course, the market's purpose is to look ahead and discount what is to come and thus today's valuations may be justified by the imminence of strong profit growth. On this front, immediate prospects are clouded by sterling's strength and by a still uncertain recovery path in Europe. Over the medium term, stronger than average profit growth should be achievable if and when Europe recovers properly, but over the long term profit progression in line with nominal GDP is probably not too far from the mark. On balance, therefore, from a starting dividend yield of 2.4%, modest single digit total returns for small companies look likely over coming years.

These comments pertain to the asset class as a whole, but it is still possible to differentiate within the confines of the NSCI (XIC). The valuation characteristics of ASCoT's portfolio differ from those of the asset class. The historic PE of 13.4x is 12% below that of the NSCI (XIC). The table below shows the valuation on a forward looking basis to December 2015, using the ratio of enterprise value to earning before interest, tax and amortisation (EV/EBITA), a metric that is unaffected by companies' balance sheet financing structures.

2015 EV/EBITA ratio			
38 growth companies	*244 other companies*	*Tracked Universe*	*Portfolio*
13.2x	9.4x	9.9x	8.5x

This analysis demonstrates the differentiation possible through a value investment discipline, with the growth companies in the index on a 55% premium to the constituents of the portfolio. Part of this valuation advantage reflects the portfolio's exposure to the cheaper "smaller small" companies that the market at large still seems reluctant to embrace.

It is necessary to be realistic: macro economics, geopolitics and the vagaries of the yield curve will buffet the stockmarket over the short term, determining its appetite for smaller companies and for the value investment style. However, your Managers are encouraged by the still wide disparity in valuations evident within the NSCI (XIC). The attractively valued businesses within the portfolio give ASCoT's investors exposure to the value investment style, which, in the recent past and over the long term, has delivered demonstrably superior returns.

Aberforth Partners LLP
Managers

25 July 2014

Investment Portfolio

Fifty Largest Investments as at 30 June 2014

No.	Company	Valuation £'000	% of Total	Business Activity
1	JD Sports Fashion	40,013	3.5	Retailing - sports goods & clothing
2	QinetiQ Group	32,300	2.8	R&D and consulting services
3	Vesuvius	30,316	2.7	Metal flow engineering
4	FirstGroup	28,204	2.5	Bus & rail operator
5	RPC Group	28,073	2.5	Plastic packaging
6	St. Modwen Properties	27,942	2.5	Property - investment & development
7	e2v technologies	27,624	2.4	Electronic components & subsystems
8	Shanks Group	26,532	2.3	Waste services
9	Spirit Pub Company	24,972	2.2	Managed pub operator
10	Flybe Group	24,856	2.2	Airline
	Top Ten Investments	**290,832**	**25.6**	
11	Go-Ahead Group	24,781	2.2	Bus & rail operator
12	Northgate	24,555	2.2	Van rental
13	Micro Focus	21,235	1.9	Software - development & testing
14	Bovis Homes Group	20,865	1.8	Housebuilding
15	Mecom Group	19,966	1.8	European newspaper publisher
16	Morgan Advanced Materials	18,682	1.6	Manufacture of carbon & ceramic materials
17	Unite Group	18,366	1.6	Property - student accommodation
18	Tullett Prebon	18,000	1.6	Interdealer broker
19	Grainger	17,870	1.6	Property - residential
20	Brewin Dolphin Holdings	17,645	1.6	Private client fund manager
	Top Twenty Investments	**492,797**	**43.5**	
21	EnQuest	17,410	1.5	Oil & gas exploration & production
22	CSR	16,928	1.5	Location & connectivity semiconductors
23	RPS Group	16,798	1.5	Energy & environmental consulting
24	Countrywide	16,633	1.5	Property - estate agency
25	Soco International	16,613	1.5	Oil & gas exploration & production
26	Hilton Food Group	15,743	1.4	Food manufacturer
27	Hansteen Holdings	15,719	1.4	Property - industrial
28	Huntsworth	15,128	1.3	Public relations
29	Trinity Mirror	14,650	1.3	UK newspaper publisher
30	Vectura Group	14,634	1.3	Inhaled pharmaceuticals - respiratory specialism
	Top Thirty Investments	**653,053**	**57.7**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2014

No.	Company	Valuation £'000	% of Total	Business Activity
31	Vitec Group	14,066	1.2	Camera accessories & microwave components
32	RM	13,978	1.2	IT services for schools
33	Robert Walters	13,963	1.2	Recruitment
34	Anite	13,942	1.2	Telecoms test software
35	Optos	13,656	1.2	Medical technology - retinal imaging
36	Novae Group	13,333	1.2	Lloyd's insurer
37	TT Electronics	12,698	1.1	Sensors & other electronic components
38	Assura Group	12,547	1.1	Property - healthcare
39	National Express Group	12,506	1.1	Bus & rail operator
40	Computacenter	12,251	1.1	IT services
	Top Forty Investments	**785,993**	**69.3**	
41	KCOM Group	11,906	1.0	Telecoms & related services
42	Petroceltic International	11,708	1.0	Oil & gas exploration & production
43	Synthomer	11,621	1.0	Speciality chemicals
44	Castings	11,412	1.0	Engineering - automotive castings
45	Chime Communications	11,399	1.0	Public relations, advertising & marketing
46	Wincanton	11,304	1.0	Logistics
47	Hogg Robinson Group	11,142	1.0	Travel & expense management
48	Connect Group	10,444	0.9	Newspaper distribution
49	Galliford Try	10,014	0.9	Housebuilding & construction
50	Mothercare	9,978	0.9	Retailing - maternity & children's products
	Top Fifty Investments	**896,921**	**79.0**	
	Other Investments (48)	268,834	23.8	
	Total Investments	**1,165,755**	**102.8**	
	Net Liabilities	(31,388)	(2.8)	
	Total Net Assets	**1,134,367**	**100.0**	

Long-Term Investment Record

Historic Total Returns

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30 June 2014	31.8	20.3	31.9
1 year to 30 June 2013	36.3	31.8	44.6
1 year to 30 June 2012	–8.7	–4.1	–12.6
1 year to 30 June 2011	36.3	34.2	36.3
1 year to 30 June 2010	18.9	28.0	15.2
1 year to 30 June 2009	–16.6	–12.4	–8.5
1 year to 30 June 2008	–25.6	–24.8	–26.5
1 year to 30 June 2007	26.9	25.4	22.6
1 year to 30 June 2006	18.4	25.9	12.8
1 year to 30 June 2005	24.1	18.2	25.6

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 30 June 2014	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	34.0	25.9	38.1	79.6	58.5	90.7
3 years	17.9	15.0	18.6	64.0	52.0	66.8
4 years	22.3	19.5	22.8	123.5	104.1	127.4
5 years	21.6	21.2	21.2	165.7	161.2	161.9
6 years	14.2	14.8	15.7	121.6	128.9	139.7
7 years	7.4	8.1	8.4	64.9	72.1	76.1
8 years	9.7	10.1	10.1	109.3	115.9	115.9
9 years	10.6	11.8	10.4	147.9	171.8	143.5
10 years	11.9	12.4	11.8	207.5	221.4	205.9
15 years	12.4	9.9	12.8	475.6	311.3	511.0
23.6 years from inception on 10 December 1990	14.5	11.5	13.9	2,327.2	1,202.8	2,055.7

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

2 Represents capital appreciation/(depreciation) on the Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested.

3 Represents Ordinary Share price with dividends reinvested.

Interim Management Report

A review of the half year and the outlook for the Company can be found in the Chairman's Statement and the Managers' Report.

Risks and Uncertainties

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

The principal risks faced by the Company relate to investment, investment policy/performance, share price discount, gearing, reputational risk, risk appetite and regulatory risk. An explanation of these risks and how they are managed can be found in the Strategic Report contained within the 2013 Annual Report. Additionally, as the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, interest rate, credit and liquidity risk. These principal risks and uncertainties have not changed from those disclosed in the 2013 Annual Report.

Going Concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Responsibility Statement

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

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

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

- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events during the first six months of the year and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being disclosure of related party transactions and changes therein.

In addition, each of the Directors considers that the Half Yearly Report, taken as whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, objective and strategy.

On behalf of the Board
Prof. Paul Marsh
Chairman

25 July 2014

Income Statement

(unaudited)

For the six months ended 30 June 2014

	Six months ended 30 June 2014		
	Revenue £'000	**Capital £'000**	**Total £'000**
Realised net gains on sales	**–**	**92,169**	**92,169**
Movement in fair value	**–**	**(88,830)**	**(88,830)**
Net gains on investments	**–**	**3,339**	**3,339**
Investment income	**15,385**	**–**	**15,385**
Other income	**1**	**–**	**1**
Investment management fee (Note 2)	**(1,633)**	**(2,721)**	**(4,354)**
Transaction costs	**–**	**(1,814)**	**(1,814)**
Other expenses	**(307)**	**–**	**(307)**
Net return before finance costs and tax	**13,446**	**(1,196)**	**12,250**
Finance costs	**(156)**	**(260)**	**(416)**
Net return on ordinary activities before tax	**13,290**	**(1,456)**	**11,834**
Tax on ordinary activities	**–**	**–**	**–**
Return attributable to equity shareholders	**13,290**	**(1,456)**	**11,834**
Returns per Ordinary Share (Note 4)	**13.93p**	**(1.53p)**	**12.40p**

Dividends

On 25 July 2014, the Board declared an interim dividend for the year ending 31 December 2014 of 7.75p per Ordinary Share (2013 – 7.35p) which will be paid on 28 August 2014.

Income Statement

Six months ended 30 June 2013			Year ended 31 December 2013		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	57,985	57,985	–	154,439	154,439
–	59,357	59,357	–	222,783	222,783
–	117,342	117,342	–	377,222	377,222
16,378	–	16,378	29,741	–	29,741
–	–	–	–	–	–
(1,220)	(2,034)	(3,254)	(2,614)	(4,357)	(6,971)
–	(1,856)	(1,856)	–	(3,892)	(3,892)
(235)	–	(235)	(496)	–	(496)
14,923	113,452	128,375	26,631	368,973	395,604
(250)	(416)	(666)	(485)	(808)	(1,293)
14,673	113,036	127,709	26,146	368,165	394,311
–	–	–	–	–	–
14,673	113,036	127,709	26,146	368,165	394,311
15.35p	118.26p	133.61p	27.37p	385.35p	412.72p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2014

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2013	**954**	**34**	**176,703**	**910,616**	**49,818**	**1,138,125**
Return on ordinary activities after tax	–	–	–	(1,456)	13,290	11,834
Equity dividends paid	–	–	–	–	(15,404)	(15,404)
Purchase of Ordinary Shares	–	–	(188)	–	–	(188)
Balance as at 30 June 2014	**954**	**34**	**176,515**	**909,160**	**47,704**	**1,134,367**

For the six months ended 30 June 2013

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

For the year ended 31 December 2013

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2012	957	31	179,461	542,451	45,279	768,179
Return on ordinary activities after tax	–	–	–	368,165	26,146	394,311
Equity dividends paid	–	–	–	–	(21,607)	(21,607)
Purchase of Ordinary Shares	(3)	3	(2,758)	–	–	(2,758)
Balance as at 31 December 2013	954	34	176,703	910,616	49,818	1,138,125

Balance Sheet

(unaudited)

As at 30 June 2014

	30 June 2014 £'000	31 December 2013 £'000	30 June 2013 £'000
Fixed assets: investments at fair value through profit or loss	**1,165,755**	1,167,630	942,368
Current assets			
Amounts due from brokers	**2,002**	–	2,602
Other debtors	**3,607**	2,120	4,644
Cash at bank	**99**	536	172
	5,708	2,656	7,418
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(4,661)**	–	(18,901)
Bank debt facility	**–**	(31,987)	(50,461)
Other creditors	**(303)**	(174)	(119)
	(4,964)	(32,161)	(69,481)
Net current assets/(liabilities)	**744**	(29,505)	(62,063)
Total assets less current liabilities	**1,166,499**	1,138,125	880,305
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(32,132)**	–	–
Total net assets	**1,134,367**	1,138,125	880,305
Capital and reserves: equity interests			
Called up share capital:			
Ordinary Shares	**954**	954	956
Reserves:			
Capital redemption reserve	**34**	34	32
Special reserve	**176,515**	176,703	178,462
Capital reserve	**909,160**	910,616	655,487
Revenue reserve	**47,704**	49,818	45,368
Total shareholders' funds	**1,134,367**	1,138,125	880,305
Net asset value per share (Note 5)	**1,189.50p**	1,193.22p	921.23p
Share price	**1,046.00p**	1,095.00p	811.50p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2014

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Cash inflow from operating activities			
Net return before finance costs and taxation	**12,250**	128,375	395,604
Gains on investments	**(3,339)**	(117,342)	(377,222)
Scrip dividends received	**–**	–	(223)
Transaction costs	**1,814**	1,856	3,892
Increase in debtors	**(1,502)**	(2,787)	(248)
(Decrease)/increase in creditors	**(27)**	(9)	24
Net cash inflow from operating activities	**9,196**	10,093	21,827
Taxation			
Taxation recovered/(paid)	**15**	–	(15)
Returns on investments and servicing of finance	**(553)**	(646)	(1,225)
Capital expenditure and financial investment			
Payments to acquire investments	**(223,294)**	(182,728)	(398,414)
Receipts from sales of investments	**229,353**	185,027	417,219
Net cash inflow from capital expenditure and financial investment	**6,059**	2,299	18,805
	14,717	11,746	39,392
Equity dividends paid	**(15,404)**	(14,584)	(21,607)
	(687)	(2,838)	17,785
Financing			
Purchase of Ordinary Shares	**–**	(999)	(2,758)
Net drawdown/(repayment) of bank debt facilities (before costs)	**250**	3,750	(14,750)
Change in cash during the period	**(437)**	(87)	277

Notes to the Financial Statements

1. Accounting Standards

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

The same accounting policies used for the year ended 31 December 2013 have been applied.

2. Investment Management Fee

The Managers, Aberforth Partners LLP, are paid an annual management fee, payable quarterly in advance, equal to:

(i) 0.8% of the net assets of the Company up to £800m; plus

(ii) 0.7% of the net assets of the Company between £800m and £1 billion (if any); plus

(iii) 0.6% of the net assets of the Company greater than £1 billion (if any).

The investment management fee has been allocated 62.5% to capital reserve and 37.5% to revenue, in line with the Board's expected long term split of returns, in form of capital gains and income respectively, from the investment portfolio of the Company.

3. Dividends

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Amounts recognised as distributions to equity holders in the period:			
Second interim dividend of 15.25p for the year ended 31 December 2012	–	14,584	14,584
Interim dividend of 7.35p for the year ended 31 December 2013	–	–	7,023
Final dividend of 16.15p for the year ended 31 December 2013	**15,404**	–	–
	15,404	14,584	21,607

The interim dividend for the year ending 31 December 2014 of 7.75p (2013 – 7.35p) will be paid on 28 August 2014 to shareholders on the register on 8 August 2014. The ex-dividend date is 6 August 2014.

Notes to the Financial Statements

4. Returns per Ordinary Share

The returns per Ordinary Share are based on:

	30 June 2014	30 June 2013	31 December 2013
Returns attributable to Ordinary Shareholders	**£11,834,000**	£127,709,000	£394,311,000
Weighted average number of shares in issue during the period	**95,382,693**	95,579,173	95,541,545
Return per Ordinary Share	**12.40p**	133.61p	412.72p

5. Net Asset Values

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

	30 June 2014 £'000	31 December 2013 £'000	30 June 2013 £'000
Net assets attributable	**1,134,367**	1,138,125	880,305
	Pence	Pence	Pence
Net asset value attributable per Ordinary Share	1,189.50	1,193.22	921.23

As at 30 June 2014, the Company had 95,364,792 Ordinary Shares in issue (31 December 2013 – 95,382,792 and 30 June 2013 – 95,557,792).

6. Related party transactions

There have been no related party transactions undertaken by the Company during the six months ended 30 June 2014.

7. Further Information

The foregoing do not constitute statutory accounts (as defined in section 434(3) of the Companies Act 2006) of the Company. The statutory accounts for the year ended 31 December 2013, which contained an unqualified Report of the Auditors, have been lodged with the Registrar of Companies and did not contain a statement required under section 498(2) or (3) of the Companies Act 2006. All information shown for the six months to 30 June 2014 is unaudited.

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

Corporate Information

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