Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2015

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 2015 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2015

Total Return Performance	%
Net Asset Value[1]	**15.3**
Numis Smaller Companies Index (XIC)[2]	**11.8**
Ordinary Share Price[3]	**12.9**

	30 June 2015	31 December 2014	30 June 2014
Shareholders' Funds	**£1,256.7m**	£1,107.3m	£1,134.4m
Market Capitalisation	**£1,133.4m**	£1,022.1m	£997.5m
Actual Gearing employed	**4.7%**	2.8%	2.8%
Ordinary Share net asset value	**1,320.66p**	1,161.41p	1,189.50p
Ordinary Share price	**1,191.00p**	1,072.00p	1,046.00p
Ordinary Share price discount	**9.8%**	7.7%	12.1%

Cumulative Returns (%) Period to 30 June 2015	NAV[1]	Index[2]	Share Price[3]
1 year	13.4	10.4	16.6
3 years	103.7	75.0	122.3
5 years	153.4	125.2	165.0
10 years	181.0	200.0	183.9
15 years	500.6	281.4	582.5
Since inception on 10 December 1990	2,652.0	1,337.7	2,412.8

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 2015 consisted of 369 companies, the largest market capitalisation of which was £1.265 billion and the aggregate market capitalisation of which was £157 billion.

3 Represents Ordinary Share price with dividends reinvested.

Past performance is not a guide to future performance. Stockmarket movements may cause the capital value of an investment and the income derived from it to go down as well as up and investors may get back less than they originally invested.

Chairman's Statement

Review of performance

For the six months to 30 June 2015, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of +15.3%, which compares with a total return of +11.8% from the Company's investment benchmark, the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)). The FTSE All-Share Index, which is dominated by larger companies, generated a return of +3.0% over the same period.

ASCoT's good absolute and relative performance came despite an investment climate over the past six and, indeed, twelve months that has not been easy for the value investor. The Managers' Report provides Shareholders with greater detail about the influences on the market and the Company during the first half of 2015.

Dividends

My predecessor as Chairman, Paul Marsh, along with his colleagues at the London Business School, has evidenced the important role that real dividend growth has played in driving the long term returns for the NSCI (XIC). The Managers' Report provides a deeper analysis of the exceptional recovery in dividend growth that has occurred since 2010. Against that backdrop the Board is pleased to announce an interim dividend of 8.15p per Ordinary Share for the year to 31 December 2015. This represents a 5.2% increase over 2014 and a level 36% higher than the comparable 2010 interim dividend. Significantly over the same period the Company has seen its revenue reserves grow to more than 1.5 times the total of the 2014 final and 2015 interim dividends. This is a strong position from which the Board may deliver its progressive dividend policy, particularly as the income backdrop will inevitably become more challenging. The interim dividend will be paid on 27 August 2015 to Shareholders on the register as at close of business on 7 August 2015. The ex dividend date is 6 August 2015.

The Company 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.

Investment Management Fees

The Board and Managers are conscious of the pressure on investment trusts to remain competitive within the broad range of equity savings products, particularly following the Retail Distribution Review. Accordingly, and as announced on 13 May 2015, the Board and Managers agreed to changes in the tariff which both simplify arrangements and also deliver immediate savings. The changes were effective from 1 July 2015 and are described in greater detail in the Financial Statements on page 19.

Gearing

Gearing has shown little change over the period and stood at 4.7% of Shareholders' Funds at 30 June 2015. The 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. It remains your Company's policy to use gearing in a tactical manner.

Chairman's Statement

Share buy-in

During the six months to 30 June 2015, 185,000 shares (0.2%) were bought in for a total consideration of £2,134,000. The Board keeps under review the circumstances in which the authority is utilised.

Conclusion

Financial markets appear always to be wrestling with macro-economic and geopolitical uncertainties and the first half of 2015 was no exception. As the period drew to a close, Greece was at the forefront of concerns as investors struggled to understand the immediate risks of "Grexit" and the subsequent implications for Europe's political landscape. In Asia, recent weeks have seen extreme volatility on the Chinese stock exchanges; the economic and political impact will be assessed over longer time periods. Meanwhile, markets continue their obsession with trying to predict the timing and implications of the Federal Reserve's first interest rate rise since the introduction of its zero interest rate policy. In comparison, the UK gave little cause for concern. In economic terms, the recent impressive performance has continued, while the outcome of the general election – a majority government that confounded the pollsters – has reduced some of the heightened political risk that is not usually associated with the UK. However, as thoughts turn to the "Brexit" referendum and upcoming European elections, it is clear that politics will be an important influence on the financial markets for some time.

While acknowledging such challenges are clearly agitating investors as the second half begins, the Board takes comfort from important characteristics of ASCoT, some of which stem from its status as an investment trust and others from how it is managed. It has a gearing facility in place, ready to exploit tactical opportunities that a market sell-off might bring. Its portfolio is well diversified and is presently enjoying a purple patch for dividend growth. In addition, the Board believes that Aberforth Partners' focus and business structure have helped create an alignment between the Company and the Managers that is to the benefit of Shareholders.

Therefore, as the Company approaches its 25th anniversary, the Board remains firmly of the view that ASCoT is well served by the value investment philosophy consistently pursued by the well resourced and experienced team at Aberforth.

Paul Trickett
Chairman
29 July 2015
paul.trickett@aberforth.co.uk

Managers' Report

Introduction

UK equities have enjoyed a good start to 2015. The FTSE All-Share, which is representative of larger companies, produced a total return of 3.0% over the six months to 30 June 2015. This was bettered by the benchmark NSCI (XIC), whose return was 11.8%. This good outcome for the small company asset class represented a favourable backdrop for ASCoT: its NAV total return was 15.3%.

These returns have come despite the usual assortment of geopolitical and macro economic concerns. Several of these have loomed for some time, notably the risk of a "Grexit", China's slowdown and Russian sabre-rattling. On top of these, the US economy, which led the initial recovery from the recession and global financial crisis, performed less smoothly in the early months of 2015; the strong dollar and another bad winter were widely blamed. Stockmarkets, which remain hyper-sensitive to the timing of interest rate rises, have so far taken this soft patch in their stride.

Closer to home, the UK's domestic economy has sustained the improvement of recent years but has had to cope with the uncertainties of a general election. These uncertainties were manifest in several forms, from delayed investment decisions, through a rush to complete IPOs before a potential change of government, to a widening of discounts among smaller company investment trusts. The eventual result was deemed by the financial markets as business friendly and, despite the promise of further and deeper austerity policies, small company share prices rose and discounts narrowed in the aftermath.

Top-down uncertainty contrasts with a more positive message emanating from companies themselves. The Managers' commentary in the Annual Report and Accounts noted a cautious optimism on the part of company boards. It may be argued that company managers fall victim to the human failing of poor forecasting, but evidence of this improved optimism has built over the past six months and is being reflected in more than just words.

- The ratio of a company's capital expenditure to depreciation indicates its appetite for investment: a ratio above one suggests investment for growth. The Managers follow closely 98% by value of the NSCI (XIC), a subset of 294 companies termed the "tracked universe". Even with the capex-heavy resources companies excluded from this population, the average capex to depreciation ratio in 2014 was over 1.5x. This indicates that small and medium sized companies, after a hiatus in the wake of the recession, are sufficiently confident to invest again.
- One-off returns of cash, whether through special dividends or buy-backs, have also been a feature of the NSCI (XIC) in 2015; ASCoT itself has received six special dividends from its investee companies. Again, this trend may be interpreted as an indication of increased confidence among small company boards.
- These factors, combined with more frequent acquisitions by small companies, have reduced the proportion of companies with net cash on their balance sheets. At 30 June 2015, 31% of ASCoT's portfolio was invested in companies with net cash, against 37% three years ago. The

corresponding figures for the tracked universe are 28% and 31%. Clearly, this shift will prove to have been unhelpful in the eventuality of another recession. However, the deployment of cash, assisted by an easier credit environment, should bode well for shareholders and the broader economy.

In rationalising the good stockmarket returns from small companies so far in 2015, and indeed over recent years, an appreciation of these bottom-up dynamics helps. Macro economics certainly cannot be ignored, and here there is evidence that one of the top-down concerns that have bedevilled the recovery – confidence on the part of companies to spend their cash – is now being addressed.

Investment performance

ASCoT's NAV total return was 15.3%, which compares with the NSCI (XIC)'s 11.8%. The table below analyses the relative out-performance. The subsequent paragraphs provide more detail on the influences on performance. In summary, ASCoT's superior performance came despite the headwinds from the portfolio's bias towards the smaller constituents of the NSCI (XIC) and from the Managers' value style. These were offset by contributions from individual stocks, some of which benefited from takeover activity.

For the six months ended 30 June 2015	Basis points
Stock selection	208
Sector selection	105
Attributable to the portfolio of investments, based on mid prices	**313**
(after transaction costs of 17 basis points)	
Movement in mid to bid price spread	56
Cash/gearing	29
Purchase of ordinary shares	2
Management fee	(39)
Other expenses	(3)
Total attribution based on bid prices	**358**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 15.35%; Benchmark Index = 11.77%; difference is 3.58% being 358 basis points).

Style & Size

ASCoT has enjoyed a good period of relative performance despite challenges from its size and style positioning. So far in 2015, the NSCI (XIC) has been led by its larger constituents, i.e. those companies that form part of the overlap with the FTSE 250. ASCoT's portfolio has a relatively low exposure to these "larger small" companies – 46% against 68% for the NSCI (XIC). This positioning reflects the much lower valuations still ascribed to the "smaller small" companies, which are perceived by many investors as too illiquid or too risky.

Additionally, ASCoT's style positioning, which is a function of the Managers' value investment philosophy and which has worked strongly to its advantage over the long term, has been a hindrance so far in 2015. To the extent that today's value stocks have a higher cyclical exposure, the recent out-performance of growth stocks may be a reflection of general macro economic concerns. There is also a sector influence at work: the NSCI (XIC)'s weighting in the oil sectors increased substantially on its annual rebalancing on 1 January 2015. This was because several larger oil companies performed very poorly in the latter part of 2014 in response to the drop in the oil price. These companies became small enough for the NSCI (XIC) and were mostly designated as value stocks. Therefore, the continued weakness of the oil sectors so far in 2015 has represented a greater drag on the value style.

Sectors

ASCoT's interaction with the oil sector is a useful example of the Managers' value investment discipline at work. Until 2014, the portfolio's exposure to the oil sectors had been lower than the NSCI (XIC)'s for ten years. This reflected misgivings about the valuations accorded to exploration and production companies when the stockmarket ascribed high probabilities to exploration success and when cost inflation was rampant. This changed with the drop in the oil price in the second half of 2014. Belts have been tightened across the oil industry and a deflationary jolt has been sent through the oil services industry. The sharp decline in the share prices has taken price to cash flow valuations for several oil producers back to levels that prevailed when ASCoT was last heavily engaged in the sector.

If for much of the previous decade the oil sectors led the way in the stockmarket – enjoying strong share price performance and finding it easy to raise capital – the baton has more recently been passed to the healthcare sectors. Here, demographics, the future role of genomics and "Obamacare" have combined to generate significant stockmarket interest in biotech and other healthcare businesses. ASCoT has benefited from a consequent re-rating of its investments in the healthcare sectors, but its exposure to these has reduced over recent years as a result of M&A activity. Though there are other moving parts, the portfolio's re-engagement with the oil sectors may be considered to have been funded by sales within the healthcare sectors. This contrarian dynamic is a frequent feature of a consistent adherence to a value investment philosophy.

Dividends

The special dividends noted in the introduction have been one part of what has been a very favourable dividend experience for investors in small companies generally and ASCoT specifically. Data from the London Business School suggest that dividends from NSCI (XIC) constituents have grown by 10% per annum in real terms over the last five years. To put the strength of this performance in context, since 1955 real dividend growth from small companies has averaged 2½% per annum and 1% from large companies. Clearly, the five year data are flattered by the starting point: many dividends were cut in 2009 as the financial crisis and recession took their toll. Hence, an element of the growth experienced by the NSCI (XIC) has been driven by the return to the dividend register of companies that passed their dividends in 2009.

While these dynamics are assisting the dividend performance of the portfolio, their effect does not show up fully in the growth of dividends paid by ASCoT itself. In the 2009 downturn ASCoT was able to avoid cutting its dividend despite the sharp drop in the income it received from investee companies. As a consequence, ASCoT's own recent dividend growth record is not boosted by a depressed starting point.

The recovery in small companies' dividends has been remarkable and helps in understanding the good share price performance of the asset class in recent years. But there are a couple of caveats. First, it is important not to get carried away: 10% per annum real dividend growth is unsustainable and will revert to the long term average. With recession not apparently imminent, it does not look likely that this will happen abruptly. However, over a period of years, the convergence must take place. Second, demonstrations of capital discipline, whether through the articulation of a progressive dividend policy or the announcement of a special dividend, are being rewarded by the stockmarket in the form of higher share prices. This may have introduced an element of faddishness: it is not clear that all dividend decisions are being made for the right reasons. Then again, the re-emergence of the importance of dividends was overdue: one of the lingering effects of the TMT bubble was to condition a generation of managers to view dividends as obsolete.

Corporate activity

Corporates have been reasonably active so far in 2015. Bids or approaches for 17 constituents of the NSCI (XIC) were announced in the first six months of 2015. Of these, ASCoT held six in its portfolio. The total value of the 17 deals was £9bn. This outstripped the £6bn total value of the 14 IPOs that have so far been completed in 2015. Some vendors appear to have been keen to list their businesses before the general election, perhaps worried about the chances of a less business friendly regime thereafter. The Managers believe that this eagerness may have nudged the pricing of the deals in favour of the buyers. ASCoT had holdings in three of 2015's IPOs in its portfolio at the end of the half year; these had a cumulative portfolio weight of 1.6%.

Turnover

Over the twelve months to 30 June 2015, portfolio turnover was 33%. This number is boosted by two situations in which ASCoT may be considered a forced seller. First, takeovers of portfolio companies require the sale of the holdings to the acquirer. Second, companies that have become too large for the NSCI (XIC) on its annual rebalancing on 1 January are sold in an orderly fashion. Stripping out the impact of these, the underlying rate of portfolio turnover was 21%, which is below the long term underlying average of 25%.

Active share

Active share is a measure of how different a portfolio is from an index. The higher the active share ratio, the greater the difference. A higher active share increases the chances that a portfolio will perform differently from the index, for better or worse. The Managers use it as a tool to ensure that the portfolio does not become a closet index tracker and target a ratio of at least 70%. At 30 June 2015, the ratio was 75%.

Managers' Report

Valuations

The table below provides historic valuation data for the portfolio and NSCI (XIC). Consistent with the strong returns from the asset class, the 15.7x PE ratio of the index has moved up sharply from 13.2x at 31 December 2014. The corresponding figures for the FTSE All-Share, which is representative of large companies, are 16.9x and 13.8x. At 30 June 2015, small companies were on a 7% discount to large, which is in line with the long term average. In terms of dividend yield, large companies appear to offer superior value: their 3.5% yield at 30 June compares with 2.4% for small companies. However, small companies benefit from much higher dividend cover – 2.6x against 1.7x – and their income is less concentrated than is the case in the large cap world.

	30 June 2015		30 June 2014	
Portfolio characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**90**	**357**	95	358
Weighted average market capitalisation	**£700m**	**£874m**	£628m	£812m
Price earnings (PE) ratio (historic)	**14.1x**	**15.7x**	13.4x	15.2x
Dividend yield (historic)	**2.6%**	**2.4%**	2.3%	2.4%
Dividend cover	**2.7x**	**2.6x**	3.2x	2.8x

The Managers prefer the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA) to the PE, since the former metric is unaffected by a company's capital structure. The following table demonstrates the EV/EBITA ratios 18 months from now to December 2016.

2016 EV/EBITA ratio			
42 growth companies	*252 other companies*	*Tracked Universe*	*Portfolio*
15.1x	10.9x	11.5x	9.4x

A re-rating, driven by rising stockmarkets, is evident: in last year's interim report, the comparable EV/EBITA ratios for 18 months out were 8.5x in the case of the portfolio and 9.9x in the case of the tracked universe. Despite these higher valuations, the Managers are not struggling to identify attractive investment opportunities. It remains the case that these are concentrated down the market capitalisation scale, where many investors, deterred by illiquidity, are reluctant to venture. The Managers welcome such inefficiencies and have retained a bias within the portfolio to "smaller small" companies: a general reluctance to embrace small size and illiquidity is what history suggests should drive superior future returns.

The table of EV/EBITA ratios also shows that there remains a wide stretch between the value stocks that inhabit the portfolio and the 42 growth stocks within the tracked universe. The 60% premium of the latter to the former suggests that the value stretch remains wide, which, as it narrows over time, should be to the benefit of the value style and therefore to ASCoT.

Outlook and conclusion

With the S&P 500 in its fourth longest bull market in 100 years and with a bubble in the Chinese stockmarket apparently in the process of bursting, it is not hard to spot reasons for caution among equity markets. This is particularly so because they continue to feel the pleasant effects of extraordinary monetary stimulus: the Eurozone has finally adopted quantitative easing, Japan continues its own programme and China is now loosening monetary policy. In contrast, the US is confronted by the prospect of tighter monetary policy: short term volatility is inevitable as markets attempt to anticipate and react to the Federal Reserve's first interest rate increase in the current cycle.

The 125% total return from the NSCI (XIC) over the five years to 30 June 2015 suggests that small UK quoted companies have also benefited from this climate of extremely accommodative monetary policy. Within the most recent period, their share prices have received an additional boost from the outcome of the general election, as the prospects of domestically oriented businesses have been re-evaluated. The upshot of this strong performance is a PE valuation for the NSCI (XIC) as a whole that is one fifth higher than its long term average. This again counsels caution.

In mitigation, small companies are, in general, trading well. Though austerity and nascent wage inflation bring their own challenges, the promising outlook for the domestic economy and the cautious optimism on the part of boards appear justified. The Managers also take reassurance from the wide range of valuations within the small company universe: with a value investment discipline, there is no need to flirt with the higher than average valuations for the NSCI (XIC) as a whole. The portfolio is thus able to retain a distinct valuation advantage over the index. This, alongside the attractive income dynamics presently at work within the small cap world, might be considered to offer some protection in the advent of an investment backdrop less benign than has been the case for some time.

Aberforth Partners LLP
Managers

29 July 2015

Investment Portfolio

Fifty Largest Investments as at 30 June 2015

No.	Company	Valuation £'000	% of Total	Business Activity
1	JD Sports Fashion	50,273	4.0	Retailing – sports goods & clothing
2	e2v technologies	42,257	3.4	Electronic components & subsystems
3	RPC Group	36,777	2.9	Plastic packaging
4	Vesuvius	35,960	2.9	Metal flow engineering
5	Bovis Homes Group	35,143	2.8	Housebuilding
6	International Personal Finance	34,062	2.7	Home credit provider
7	QinetiQ Group	31,937	2.5	R&D and consulting services
8	Mothercare	31,670	2.5	Retailing – maternity & children's products
9	Shanks Group	27,805	2.2	Waste services
10	Go-Ahead Group	27,757	2.2	Bus & rail operator
	Top Ten Investments	**353,641**	**28.1**	
11	FirstGroup	26,394	2.1	Bus & rail operator
12	Paragon Group	24,730	2.0	Specialist finance provider
13	Morgan Advanced Materials	24,639	2.0	Manufacture of carbon & ceramic materials
14	Grainger	24,510	2.0	Property – residential
15	Hilton Food Group	24,327	1.9	Food manufacturer
16	Anite	23,456	1.9	Telecoms test software
17	Brewin Dolphin Holdings	23,176	1.8	Private client fund manager
18	Northgate	22,025	1.8	Van rental
19	Urban&Civic	21,631	1.7	Property – investment & development
20	Robert Walters	21,258	1.7	Recruitment
	Top Twenty Investments	**589,787**	**47.0**	
21	Hansteen Holdings	20,192	1.6	Property – industrial
22	Hogg Robinson Group	19,977	1.6	Travel & expense management
23	Trinity Mirror	19,896	1.6	UK newspaper publisher
24	Novae Group	19,463	1.5	Lloyd's insurer
25	Vectura Group	19,411	1.5	Inhaled pharmaceuticals – respiratory specialism
26	Flybe Group	18,971	1.5	Airline
27	RPS Group	18,379	1.5	Energy & environmental consulting
28	Countrywide	18,364	1.5	Property – estate agency
29	Vitec Group	18,274	1.5	Photographic & broadcast accessories
30	Wincanton	17,951	1.4	Logistics
	Top Thirty Investments	**780,665**	**62.2**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2015

No.	Company	Valuation £'000	% of Total	Business Activity
31	Computacenter	16,873	1.3	IT services
32	Connect Group	16,709	1.3	Newspaper distribution
33	TT Electronics	16,595	1.3	Sensors & other electronic components
34	Speedy Hire	15,781	1.3	Plant hire
35	Premier Farnell	15,543	1.2	Electronic component distribution
36	Huntsworth	14,996	1.2	Public relations
37	Card Factory	14,782	1.2	Retailing – greetings cards
38	KCOM Group	14,405	1.1	Telecoms & related services
39	Phoenix IT Group	14,362	1.1	IT services & disaster recovery
40	Keller	14,324	1.1	Ground engineering services
	Top Forty Investments	**935,035**	**74.3**	
41	Ladbrokes	13,939	1.1	Bookmaker & online gaming
42	RM	13,898	1.1	IT services for schools
43	Gulf Marine Services	13,812	1.1	Build & rental of support vessels
44	Nostrum Oil & Gas	13,590	1.1	Oil & gas exploration and production
45	Chime Communications	13,464	1.1	Public relations, advertising & marketing
46	Centamin	13,190	1.0	Gold miner
47	McKay Securities	13,184	1.0	Property – London & South East offices
48	Pendragon	13,078	1.0	Automotive retailer
49	Bodycote	12,307	1.0	Engineering – heat treatment
50	SOCO International	11,829	0.9	Oil & gas exploration and production
	Top Fifty Investments	**1,067,326**	**84.7**	
	Other Investments (40)	248,114	20.0	
	Total Investments	**1,315,440**	**104.7**	
	Net Liabilities	(58,699)	(4.7)	
	Total Net Assets	**1,256,741**	**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 2015	13.4	10.4	16.6
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

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 30 June 2015	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	22.3	15.2	24.0	49.5	32.7	53.8
3 years	26.8	20.5	30.5	103.7	75.0	122.3
4 years	16.8	13.8	18.1	85.9	67.8	94.4
5 years	20.4	17.6	21.5	153.4	125.2	165.0
6 years	20.2	19.3	20.4	201.3	188.3	205.3
7 years	14.1	14.2	15.8	151.3	152.6	179.5
8 years	8.1	8.4	9.4	86.9	90.0	105.3
9 years	10.1	10.1	10.8	137.3	138.2	151.7
10 years	10.9	11.6	11.0	181.0	200.0	183.9
15 years	12.7	9.3	13.7	500.6	281.4	582.5
24.6 years from inception[4]	14.5	11.5	14.0	2,652.0	1,337.7	2,412.8

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.

4 Inception date of the Company was 10 December 1990.

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 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 2014 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2014 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
Paul Trickett
Chairman

29 July 2015

Income Statement

(unaudited)

For the six months ended 30 June 2015

	Six months ended 30 June 2015		
	Revenue £'000	**Capital £'000**	**Total £'000**
Realised net gains on sales	**–**	**62,880**	**62,880**
Movement in fair value	**–**	**88,010**	**88,010**
Net gains/(losses) on investments	**–**	**150,890**	**150,890**
Investment income	**22,218**	**1,462**	**23,680**
Other income	**–**	**–**	**–**
Investment management fee (Note 2)	**(1,606)**	**(2,677)**	**(4,283)**
Transaction costs	**–**	**(1,884)**	**(1,884)**
Other expenses	**(341)**	**–**	**(341)**
Net return before finance costs and tax	**20,271**	**147,791**	**168,062**
Finance costs	**(119)**	**(199)**	**(318)**
Return on ordinary activities before tax	**20,152**	**147,592**	**167,744**
Tax on ordinary activities	**–**	**–**	**–**
Return attributable to equity shareholders	**20,152**	**147,592**	**167,744**
Returns per Ordinary Share (Note 4)	**21.15p**	**154.89**	**176.04p**

Dividends

On 29 July 2015, the Board declared an interim dividend for the year ending 31 December 2015 of 8.15p per Ordinary Share (2014 – 7.75p) which will be paid on 27 August 2015.

Income Statement

Six months ended 30 June 2014 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2014 Revenue £'000	Capital £'000	Total £'000
–	92,169	92,169	–	150,295	150,295
–	(88,830)	(88,830)	–	(174,923)	(174,923)
–	3,339	3,339	–	(24,628)	(24,628)
15,385	–	15,385	30,166	291	30,457
1	–	1	1	–	1
(1,633)	(2,721)	(4,354)	(3,240)	(5,399)	(8,639)
–	(1,814)	(1,814)	–	(3,346)	(3,346)
(307)	–	(307)	(661)	–	(661)
13,446	(1,196)	12,250	26,266	(33,082)	(6,816)
(156)	(260)	(416)	(289)	(482)	(771)
13,290	(1,456)	11,834	25,977	(33,564)	(7,587)
–	–	–	–	–	–
13,290	(1,456)	11,834	25,977	(33,564)	(7,587)
13.93p	(1.53)p	12.40p	27.24p	(35.19)p	(7.95)p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2015

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2014	**953**	**35**	**176,300**	**877,052**	**53,000**	**1,107,340**
Return on ordinary activities after tax	–	–	–	147,592	20,152	167,744
Equity dividends paid	–	–	–	–	(16,209)	(16,209)
Purchase of Ordinary Shares	(1)	1	(2,134)	–	–	(2,134)
Balance as at 30 June 2015	**952**	**36**	**174,166**	**1,024,644**	**56,943**	**1,256,741**

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 year ended 31 December 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	–	–	–	(33,564)	25,977	(7,587)
Equity dividends paid	–	–	–	–	(22,795)	(22,795)
Purchase of Ordinary Shares	(1)	1	(403)	–	–	(403)
Balance as at 31 December 2014	953	35	176,300	877,052	53,000	1,107,340

Balance Sheet

(unaudited)

As at 30 June 2015

	30 June 2015 £'000	31 December 2014 £'000	30 June 2014 £'000
Fixed assets: investments at fair value through profit or loss	**1,315,440**	1,138,793	1,165,755
Current assets			
Amounts due from brokers	**196**	436	2,002
Other debtors	**3,650**	2,234	3,607
Cash at bank	**17**	238	99
	3,863	2,908	5,708
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(8,974)**	(6)	(4,661)
Other creditors	**(166)**	(203)	(303)
	(9,140)	(209)	(4,964)
Net current (liabilities)/assets	**(5,277)**	2,699	744
Total assets less current liabilities	**1,310,163**	1,141,492	1,166,499
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(53,422)**	(34,152)	(32,132)
TOTAL NET ASSETS	**1,256,741**	1,107,340	1,134,367
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	**952**	953	954
Reserves:			
Capital redemption reserve	**36**	35	34
Special reserve	**174,166**	176,300	176,515
Capital reserve	**1,024,644**	877,052	909,160
Revenue reserve	**56,943**	53,000	47,704
TOTAL SHAREHOLDERS' FUNDS	**1,256,741**	1,107,340	1,134,367
Net asset value per share (Note 5)	**1,320.66p**	1,161.41p	1,189.50p
Share price	**1,191.00p**	1,072.00p	1,046.00p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2015

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Net cash inflow from operating activities	**17,619**	9,211	21,080
Investing activities			
Purchases of investments	**(225,154)**	(223,294)	(419,879)
Sales of investments	**206,721**	229,353	420,312
Cash (outflow)/inflow from investing activities	**(18,433)**	6,059	433
Financing activities			
Purchase of Ordinary Shares	**(2,134)**	–	(403)
Equity dividends paid	**(16,209)**	(15,404)	(22,795)
Interest and fees paid	**(314)**	(553)	(863)
Net drawdown of bank debt facilities (before costs)	**19,250**	250	2,250
Cash inflow/(outflow) from financing activities	**593**	(15,707)	(21,811)
Change in cash during the period	**(221)**	(437)	(298)
Cash at the start of the period	**238**	536	536
Cash at the end of the period	**17**	99	238

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been prepared on a going concern basis and in accordance with the Financial Reporting Standard 104 and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2014. 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 2014 have been applied. In particular, all investments have been valued at their fair value, which, with the exception of one unquoted investment valued at £Nil, is represented by the quoted bid price at the close of business on 30 June 2015.

2. Investment Management Fee

With effect from 1 July 2015, the Managers, Aberforth Partners LLP, will be paid an annual management fee, payable quarterly in advance, equal to 0.75% of net assets up to £1 billion, and 0.65% thereafter.

Previously the Managers were paid an annual management fee, payable quarterly in advance, equal to: 0.8% of the net assets of the Company up to £800m; plus 0.7% of the net assets of the Company between £800m and £1 billion (if any); plus 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 reserve, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

3. Dividends

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 16.15p for the year ended 31 December 2013	–	15,404	15,404
Interim dividend of 7.75p for the year ended 31 December 2014	–	–	7,391
Final dividend of 17.00p for the year ended 31 December 2014	**16,209**	–	–
	16,209	15,404	22,795

The interim dividend for the year ending 31 December 2015 of 8.15p (2014 – 7.75p) will be paid on 27 August 2015 to shareholders on the register on 7 August 2015. The ex-dividend date is 6 August 2015. The interim dividend has not been included as a liability in these financial statements.

Notes to the Financial Statements

4. Returns per Ordinary Share

The returns per Ordinary Share are based on:

	30 June 2015	30 June 2014	31 December 2014
Returns attributable to Ordinary Shareholders	**£167,744,000**	£11,834,000	£(7,587,000)
Weighted average number of shares in issue during the period	**95,288,936**	95,382,693	95,367,970
Return per Ordinary Share	**176.04p**	12.40p	(7.95)p

5. Net Asset Value per Ordinary Share

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 2015 £'000	31 December 2014 £'000	30 June 2014 £'000
Net assets attributable	**1,256,741**	1,107,340	1,134,367
Ordinary Shares in issue at end of period	**95,159,792**	95,344,792	95,364,792
Net asset value per Ordinary Share	**1,320.66p**	1,161.41p	1,189.50p

6. Share Capital

During the period, the Company bought in and cancelled 185,000 shares (2014: 18,000) at a total cost of £2,134,000 (2014: £188,000). No shares have been bought back for cancellation between 1 July 2015 and 29 July 2015.

7. Related party transactions

There have been no related party transactions undertaken by the Company during the six months ended 30 June 2015.

8. Further Information

The foregoing do not constitute statutory accounts of the Company (as defined in section 434(3) of the Companies Act 2006). The financial information for the year ended 31 December 2014 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor issued an unqualified opinion on those accounts and did not make any statements under section 498(2) or (3) of the Companies Act 2006. All information shown for the six months to 30 June 2015 is unaudited.

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

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