Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2017

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 2017 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2017

Total Return Performance	%
Net Asset Value[1]	**13.8**
Numis Smaller Companies Index (XIC)[2]	**9.7**
Ordinary Share Price[3]	**14.7**

	30 June 2017	31 December 2016	30 June 2016
Shareholders' Funds	**£1,362.0m**	£1,220.2m	£1,034.8m
Market Capitalisation	**£1,174.6m**	£1,046.9m	£859.9m
Actual Gearing	**0.0%**	2.7%	2.8%
Ordinary Share net asset value	**1,448.33p**	1,292.57p	1,092.06p
Ordinary Share price	**1,249.00p**	1,109.00p	907.50p
Ordinary Share price discount	**13.8%**	14.2%	16.9%

Cumulative Returns (%) Period to 30 June 2017	NAV[1]	Index[2]	Share Price[3]
1 year	35.7	29.1	41.4
3 years	30.5	33.1	29.1
5 years	134.4	111.0	146.3
10 years	115.1	129.1	127.4
15 years	433.1	452.6	427.5
Since inception on 10 December 1990	3,067.5	1,634.0	2,683.7

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 2017 consisted of 349 companies, the largest market capitalisation of which was £1.4 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 2017, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of +13.8%, which compares with a total return of +9.7% 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 +5.5% over the same period.

At the end of June, the gap between the Company's share price and its net asset value was 13.8%. This discount narrowed only slightly over the first six months of the year, but it allowed the Company's share price to rise by 14.7% in total return terms. More broadly, discounts within the AIC's UK Smaller Companies subsector continue to be among the widest in the investment trust world, which comes despite a good run of performance from the asset class. Brexit is the likely explanation. While the worst fears in the aftermath of last year's EU referendum have failed to materialise, small UK quoted companies are relatively exposed to the UK's domestic economy and therefore remain vulnerable to an acrimonious divorce. The bewildering political developments of the first half of the year do not inspire the greatest confidence in our politicians to avoid a chaotic exit.

After the disappointment of 2016, it is pleasing, as Chairman, to be reporting on a stronger period: recent performance demonstrates the benefits of an actively managed portfolio whose differentiation from its benchmark index is significant, not least as a result of the Managers' value investment style. As is usual, the Managers' report provides greater insight into the factors that influenced the Company during the first half of 2017.

Annual General Meeting

I am delighted to report that at the Annual General Meeting on 1 March 2017, 99.9% of Shareholders' votes cast were in favour of the continuation of the Company. Furthermore, all resolutions were passed, including the renewal of authority to buy in up to 14.99% of ASCoT's Ordinary Shares.

Dividends

It is an inescapable truth that shareholders in small UK quoted companies have enjoyed a golden period since the recovery in dividends began in 2010. The first half of 2017 saw a continuation of the dividend friendly environment. The Board is pleased to announce an interim dividend of 9.05p per Ordinary Share for the six months to 30 June 2017. This represents an increase of 5.2% compared with last year's interim dividend. The Board, in implementing its progressive dividend policy, continues to be mindful of the fact that at some point in the future the dividend climate will turn more hostile. In this regard, the increase in the interim dividend should be viewed alongside the Company's retained reserves which now stand at 52.5p per Ordinary Share, approximately 1.9 times the total of the 2016 Ordinary Share final and 2017 interim dividends. The interim dividend will be paid on 24 August 2017 to Shareholders on the register as at close of business on 4 August 2017. The ex dividend date is 3 August 2017.

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.

Chairman's Statement

Gearing

During the first half, following an extensive tendering process, the Board replaced the Company's borrowing facility, which was due to expire on 15 June 2017, with a new £125m facility from The Royal Bank of Scotland plc, which is on broadly similar terms and will run for a period of three years. Gearing levels are reviewed on a regular basis by the Board though ASCoT was not geared at 30 June 2017. The Board remains comfortable that the Company has access to sufficient liquidity for investment purposes and also for share buy-in, as and when appropriate. It remains the Company's policy to use gearing in a tactical manner.

Share buy-in

The Company's share buy-in authority is renewed annually at the Annual General Meeting. During the six months to 30 June 2017, 361,800 shares (0.4% of the issued share capital) were purchased for a total consideration of £4,507,000 at an average discount of 15.5% to the net asset value. Any shares purchased are automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital.

The Board keeps under review the circumstances in which the authority is utilised.

Conclusion

In a period of twelve months, the UK has gone from being viewed as possessing a stable political and economic backdrop to being confronted by significant change and challenge. Such periods clearly bring risks for the investor but they will be resolved with the passage of time and can also offer attractive opportunities. In contrast to the UK, the outlook for the global economy has improved over the past year, with a greater synchronisation of recovery among individual economies than at any point since the financial crisis. At this level, the predicament facing financial markets is whether the recent rise in yields is a harbinger of sustained global reflation. Were this to be the case, equities as an asset class would benefit and the value investment style would likely out-perform, to the advantage of the relative performance of the Company. In contrast, a return to deflationary pressures would in all probability see a continuation of the broad trends witnessed since the financial crisis and equities would see leadership revert to their quality and growth cohorts. Such global shifts, which can seem very remote from the Company's investments in small UK quoted companies, may well have a greater long term significance than today's domestic issues.

Paul Trickett
Chairman
27 July 2017
paul.trickett@aberforth.co.uk

Managers’ Report

Introduction

In common with many stockmarkets around the world, UK equities performed well in the first six months of 2017. The FTSE All-Share, which is illustrative of large companies, produced a total return of 5.5%. This was surpassed by the 9.7% return from the small companies that make up the NSCI (XIC). ASCoT’s NAV total return in the six months was 13.8%, which, in comparison with the NSCI (XIC), represents a pleasing recovery in performance from the disappointment of 2016.

The superior performance of small companies so far in 2017 has seen them recover all of the ground lost against large companies in the immediate aftermath of the EU referendum result in June 2016. That initial negative reaction was prompted by the greater exposure of the NSCI (XIC)’s constituents to the domestic economy, which is vulnerable to a poorly handled Brexit. It would be pleasing to conclude from the subsequent recovery in small company share prices that Brexit has been well handled and that its attendant risks have diminished – unfortunately this is not the case. Rather, the bounce back enjoyed by small companies has been led by overseas oriented sectors.

Nevertheless, domestic sectors have made positive absolute returns, which reflect the fact that fears of an immediate impact on economic activity from the “out” vote have not come to pass. Indeed, macro economic data and the trading progress of domestically oriented small companies have proved remarkably resilient, which is also testament to how tightly run these businesses are. However, challenges remain, as the weakness of the pound in the wake of the referendum puts pressure on costs, eating into real wages, and as Brexit threatens the movement of labour.

On top of these issues, the outcome of the latest General Election introduces further uncertainty. While political surprises in recent times have not been confined to the UK, the days of its status as a haven of political stability now seem long gone. From the perspective of the typical small UK quoted company, the implications of the Conservative Party’s failure to secure an overall majority are moot. The chances of a badly handled divorce from the EU have undoubtedly risen, but so have the chances of a “softer” Brexit, which may explain the phlegmatic reaction thus far of sterling and of share prices to the result.

Indeed, the strength of equity markets since early 2016 has been notable despite heightened political uncertainty around the globe. This buoyancy has its roots in improved economic activity in both China and Europe and received a boost with the election of Donald Trump and his promise of increased fiscal stimulus. Commodities were the initial beneficiaries, but the effect spread through other cyclical sectors of the stockmarket to the benefit of the value investment style followed by the Managers. Within financial markets, which are fond of snappy terms for complex developments, this pick-up in activity and optimism has been termed the “reflation trade”. It has certainly influenced ASCoT’s good returns in the first half of 2017.

Managers' Report

Investment performance

Over the six months to 30 June 2017, ASCoT's NAV total return was 13.8% against 9.7% for the NSCI (XIC). The following table, which analyses the difference between these numbers, shows a large positive contribution from stock selection. While that outcome is influenced by other factors, which are addressed in the subsequent paragraphs, it is noteworthy that several of the portfolio's larger holdings performed particularly well and that there were few significant large share price declines among the holdings – this will not always be the case!

For the six months ended 30 June 2017	Basis points
Stock selection	368
Sector selection	46
Attributable to the portfolio of investments, based on mid prices	**414**
(after transaction costs of 12 basis points)	
Movement in mid to bid price spread	4
Cash/gearing	29
Purchase of ordinary shares	6
Management fee	(38)
Other expenses	(3)
Total attribution based on bid prices	**412**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 13.84%; Benchmark Index = 9.72%; difference is 4.12% being 412 basis points).

Size & Style

For reasons set out in the Valuations section below, ASCoT retains a relatively high exposure to the "smaller small" companies within the NSCI (XIC). To assess the appropriateness of this positioning the return from the FTSE SmallCap may be compared with that from the FTSE 250 index. Over the first half of 2017, the FTSE SmallCap performed slightly better, suggesting that size had a small positive effect on ASCoT's return relative to the NSCI (XIC) in that period.

The style picture is altogether more complicated. The Managers use analysis from the London Business School and Style Research to assess style influences on ASCoT's performance. Both these houses suggest that the NSCI (XIC)'s growth stocks generated much better returns than did its value stocks in the first half of 2017, which would have represented a headwind to ASCoT. However, it is unlikely that ASCoT's relative performance would have been so strong had investment style proved adverse.

So what was going on? Although these style series are a useful indicator over longer time periods, they can be susceptible to other influences in the short term. In the six months under review, the Managers believe that a sector effect introduced such noise. So far in 2017, the resources companies that performed so well through 2016 have given up some of their gains. Most of these are still classified as value stocks and so their weakness disproportionately affected the value component of the NSCI (XIC). Excluding resources companies from the analysis, there was little to choose between the returns from value and growth over the past six months.

Managers' Report

Corporate activity

Both M&A and IPO activity were subdued in the opening months of 2017. This probably reflected the on-going uncertainty stemming from last year's EU referendum and the additional impact of June's General Election. Through the six months to 30 June 2017, six new bids or approaches for companies in the NSCI (XIC) were made and remain likely to complete. Meanwhile, IPO activity was confined to eight new listings. An upturn in M&A still looks likely: small company valuations remain relatively low, particularly for overseas buyers who can take advantage of sterling's weakness since the Brexit vote.

Strong balance sheets

Balance sheets of both ASCoT's investee companies and the broader NSCI (XIC) remain in robust shape. In the case of the portfolio, 20% is invested in companies with net cash on their balance sheets. While still high, this proportion has declined from 36% three years ago. The Managers consider the reduction to be healthy since it reflects greater confidence on the part of company boards to invest, acquire or return surplus cash balances to shareholders. Appetite for investment may be gauged by the ratio of capital expenditure to depreciation: a ratio above one indicates investment for future growth. The Managers follow closely a subset 281 companies within the NSCI (XIC), which represents 98% by value of the overall index and is termed the "tracked universe". Even with capital intensive resources companies excluded, the capital expenditure to depreciation ratio for the tracked universe was 1.5x in 2016. All else being equal, this augurs well for future profit growth for small companies.

Income

Supported by those strong balance sheets, the dividend environment for the portfolio and for small companies in general remained encouraging through the first half of 2017. As the table below shows, almost half of the 84 holdings at 30 June 2017 announced higher dividends.

Down	Nil payers	No change	Increase	Other
7	14	19	41	3

Dividend growth has also been buoyed by healthy dividend cover of 2.8x for the portfolio and 2.7x for the NSCI (XIC). These are higher than the averages since 1990 – 2.6x in both cases – and much higher than the FTSE All-Share's present dividend cover of 1.3x. It should be noted that fashion has played a part in the strong dividend growth record of recent years. One of the longer lasting legacies of the TMT bubble was that "dividend" became a dirty word for many companies, an admission of failure to find something else to do with shareholders' money. However, as bond yields have fallen in the period since the financial crisis, the investment world has experienced income starvation. Company boards have realised that they can help address this problem by paying higher dividends and have no doubt been encouraged to do so by positive share price reaction to the announcement of a more progressive pay-out policy. The Managers suspect that the next economic downturn will prove that not all such dividend decisions will prove sustainable.

Managers' Report

Turnover

Annualised portfolio turnover over the six months to 30 June 2017 was 24%. This is up from 16% in the first half of 2016. The increase is related to the improvement in ASCoT's performance: as share prices of investee companies rise and price targets are achieved, the Managers typically look to recycle capital into companies with greater upside.

Active share

Active share is a gauge of how different a portfolio is from an index. The higher the ratio, the higher the likelihood that the performance of the portfolio will differ from that of the index. The Managers target a ratio of at least 70%, though would tolerate a temporarily lower number. At 30 June 2017, the active share ratio was 76%.

Valuations

Portfolio characteristics	**30 June 2017** ASCoT	**30 June 2017** NSCI (XIC)	30 June 2016 ASCoT	30 June 2016 NSCI (XIC)
Number of companies	**84**	**339**	83	339
Weighted average market capitalisation	**£660m**	**£894m**	£514m	£823m
Price earnings (PE) ratio (historic)	**11.8x**	**13.8x**	10.5x	12.4x
Dividend yield (historic)	**3.0%**	**2.7%**	3.4%	2.8%
Dividend cover	**2.8x**	**2.7x**	2.8x	2.9x

The table above shows the average PE ratio and dividend yield of ASCoT's portfolio and of the NSCI (XIC). Consistent with the Managers' value investment style, the portfolio compares well on both measures. A more stark contrast at the present time is with large companies: the historic PE of the FTSE All-Share was 20.8x at the end of June. This premium valuation reflects the greater bias of large companies to overseas markets that would be less vulnerable to a badly handled Brexit. However, the premium is very wide: over ASCoT's history, large companies have been 23% more expensive than the portfolio on average; currently they are 76% more expensive. The Managers are therefore of the view that much of the risk associated with Brexit may already be incorporated in share prices.

EV/EBITA	2016	2017	2018
ASCoT	11.9x	11.3x	9.4x
Tracked universe (281 stocks)	13.8x	13.0x	11.4x
- 40 growth stocks	19.6x	16.9x	14.8x
- 241 other stocks	13.0x	12.3x	10.9x

This next table sets out the valuation of the portfolio on the Managers' favoured metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). It also sets out the corresponding ratios for the tracked universe and two subsets, being 40 growth stocks and 241 other stocks. Again, the portfolio compares well on this analysis, with the premium of the growth stocks to the portfolio particularly wide at 50% for 2017.

Managers' Report

One of the reasons for the portfolio's relatively attractive valuation is brought out in the following table, which shows the EV/EBITA ratio for four market capitalisation bands, along with the exposure of both the portfolio and the tracked universe to those bands. The message is that, in today's UK stockmarket, the smaller the company the lower the valuation, which is an unusual state of affairs since the "smaller small" companies have superior growth prospects. At work is a general reluctance on the part of investors since the financial crisis to entertain relatively illiquid investment propositions. As a closed end fund able to adopt a long term investment horizon, ASCoT is well placed to exploit this anomaly and therefore has above average exposure to the NSCI (XIC)'s "smaller small" companies.

Market capitalisation range:	< £100m	£100-250m	£250-750m	> £750m
Portfolio weight	3%	17%	42%	38%
Tracked universe weight	1%	5%	30%	64%
Tracked universe 2017 EV/EBITA	9.2x	10.6x	12.4x	13.6x

Outlook & Conclusion

ASCoT has enjoyed a period of strong performance as the effects of the reflation trade, with its positive implications for the value investment style, permeated the universe of small UK quoted companies. Given the leads and lags that characterise this relatively inefficient part of the stockmarket, and the inconvenience of stockmarket trends seldom fitting neatly into calendar years, it is perhaps more useful to view this particularly strong period in the context of the weaker relative returns of 2016. What the past one and a half years demonstrates is that value style fares better when optimism about economic activity rises. Conversely, and as explained in several Managers' Reports over recent years, deflationary forces represent a challenge to value but a boon to the growth style.

The first six months of 2017 highlighted threats to the continuation of the reflation trade. In the US, Donald Trump's ability to deliver his vaunted fiscal stimulus has been undermined by the investigation into Russian interference in the election. Meanwhile, it would appear unlikely that the political fluidity that has characterised the UK in recent years is set to change in the near future, notwithstanding the higher chance of a softer Brexit that has come with the election result. Indeed, given such political uncertainty, it is remarkable that economies themselves have not proved more vulnerable. As the half year mark approached, a further complication arose. Whether coincidental or co-ordinated, the actions and comments from central banks in the last week of June suggested concern about reflationary pressures and a more hawkish stance on monetary policy. As long as the central bankers have correctly assessed the risks, higher interest rates and by extension higher government bond yields should be good news: ten years from the start of the financial crisis, a normalisation of monetary conditions would suggest improved economic prospects and would bode well for the value style. However, the condition at the start of the previous sentence is important: if interest rate rises prove too aggressive, they will stifle the recovery, suppress bond yields and prolong the stockmarket trends with which we have become familiar since the financial crisis.

Managers' Report

While the issues addressed in the preceding paragraph will influence ASCoT's returns over the short term, they should have limited relevance over the long term as economic and financial conditions normalise and stagnation proves not to be inevitable. Looked at through a longer term lens, the more significant influences on ASCoT's prospects are likely to be the underlying companies in which ASCoT invests, how these are combined in a portfolio, and the valuations presently accorded to these companies by the stockmarket. In each respect, the Managers remain confident. ASCoT's typical holding is in a business that was well tested in the financial crisis and subsequent recession, and that is now, supported by a strong balance sheet and growing profits, able both to invest for future progress and to pay its shareholders an acceptable dividend. Although the typical holding may be classified as cyclical rather than defensive, the cycles to which each of the 84 holdings is exposed are not the same and individual cyclical risks are diluted within the context of the portfolio. Moreover, in view of the attractive valuations of the portfolio, it is likely that some of the risk of a Brexit-inspired economic downturn is already embedded in share prices.

Indeed, herein lies the specific opportunity for ASCoT today. Fear of volatility and illiquidity has been elevated since the financial crisis and remains so. The valuations of companies whose profits grow, albeit not in a smooth fashion, are penalised, all the more so if these companies are small and their shares happen to be traded infrequently. The Managers believe that, unless we are now doomed to a future without economic progress, it is likely that the valuations presently available to ASCoT will continue to support further good rates of returns for shareholders over the long term.

Aberforth Partners LLP
Managers

27 July 2017

Investment Portfolio

Fifty Largest Investments as at 30 June 2017

No.	Company	Valuation £'000	% of Total	Business Activity
1	Vesuvius	47,051	3.5	Metal flow engineering
2	FirstGroup	43,127	3.1	Bus & rail operator
3	Bovis Homes Group	36,254	2.6	Housebuilding
4	Nostrum Oil & Gas	35,266	2.6	Oil & gas exploration and production
5	Coats Group	34,972	2.6	Manufacture of threads
6	Brewin Dolphin Holdings	34,704	2.6	Private client fund manager
7	Vitec Group	30,989	2.3	Photographic & broadcast accessories
8	Paragon Group	30,817	2.3	Specialist lender
9	Urban&Civic	29,663	2.2	Property – investment & development
10	Grainger	28,598	2.1	Property – residential rentals
	Top Ten Investments	**351,441**	**25.9**	
11	Northgate	28,532	2.1	Van rental
12	TT Electronics	27,633	2.0	Sensors & other electronic components
13	RPS Group	26,768	2.0	Energy & environmental consulting
14	Keller	26,444	1.9	Ground engineering services
15	Wincanton	26,254	1.9	Logistics
16	Restaurant Group	25,940	1.9	Restaurant operator
17	Hansteen Holdings	24,375	1.8	Property – industrial
18	Robert Walters	23,774	1.8	Recruitment
19	Senior	23,750	1.7	Aerospace & automotive engineering
20	EnQuest	23,716	1.7	Oil & gas exploration and production
	Top Twenty Investments	**608,627**	**44.7**	
21	Spirent Communications	23,611	1.7	Telecoms test equipment
22	Computacenter	23,246	1.7	IT services
23	SDL	22,679	1.7	Software – translation & content management
24	Huntsworth	22,045	1.6	Public relations
25	Speedy Hire	20,870	1.5	Plant hire
26	Hogg Robinson Group	20,791	1.5	Travel & expense management
27	Bodycote	20,707	1.5	Engineering – heat treatment
28	Forterra	20,642	1.5	Manufacture of bricks
29	De La Rue	20,410	1.5	Bank note printer
30	Essentra	20,323	1.5	Filters & packaging products
	Top Thirty Investments	**823,951**	**60.4**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2017

No.	Company	Valuation £'000	% of Total	Business Activity
31	Go-Ahead Group	20,217	1.5	Bus & rail operator
32	Eurocell	19,244	1.4	Manufacture of UPVC building products
33	Just Group	19,076	1.4	Individually underwritten annuities
34	McKay Securities	18,021	1.3	Property – London & South East offices
35	International Personal Finance	17,304	1.3	Home credit provider
36	RM	16,627	1.2	IT services for schools
37	U and I Group	16,170	1.2	Property – investment & development
38	Trinity Mirror	15,873	1.2	UK newspaper publisher
39	SIG	15,102	1.1	Support Services
40	Vectura Group	14,847	1.1	Inhaled pharmaceuticals – respiratory specialism
	Top Forty Investments	**996,432**	**73.1**	
41	Morgan Advanced Materials	14,370	1.1	Manufacture of carbon & ceramic materials
42	Games Workshop Group	14,249	1.1	Tabletop fantasy wargames
43	McColl's Retail Group	14,055	1.0	Retailing – convenience stores
44	Connect Group	13,907	1.0	Newspaper distribution
45	Pendragon	13,805	1.0	Automotive retailer
46	N Brown Group	13,697	1.0	Catalogue retailer
47	Future	13,156	1.0	Special interest consumer publisher
48	Anglo Pacific Group	13,002	1.0	Natural resources royalties
49	Laird	12,453	0.9	Electronic systems & controls
50	Stagecoach Group	12,398	0.9	Bus & rail operator
	Top Fifty Investments	**1,131,524**	**83.1**	
	Other Investments (34)	230,128	16.9	
	Total Investments	**1,361,652**	**100.0**	
	Net Assets	380	–	
	Total Net Assets	**1,362,032**	**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 2017	35.7	29.1	41.4
1 year to 30 June 2016	-15.2	-6.6	-21.7
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

Periods to 30 June 2017	Annualised Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	7.3	9.8	5.3	15.1	20.6	10.8
3 years	9.3	10.0	8.9	30.5	33.1	29.1
4 years	14.5	12.5	14.2	72.0	60.1	70.3
5 years	18.6	16.1	19.8	134.4	111.0	146.3
6 years	13.5	12.5	13.6	114.0	102.4	115.3
7 years	16.5	15.3	16.6	191.7	171.7	193.6
8 years	16.8	16.9	16.5	246.8	247.7	238.2
9 years	12.5	13.2	13.4	189.2	204.7	209.6
10 years	8.0	8.6	8.6	115.1	129.1	127.4
15 years	11.8	12.1	11.7	433.1	452.6	427.5
26.6 years from inception[4]	13.9	11.3	13.3	3,067.5	1,634.0	2,683.7

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.

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 on-going process for identifying, evaluating and managing the principal 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 and regulatory risk. An explanation of these risks and how they are managed can be found in the Strategic Report contained within the 2016 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2016 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 Guidance 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 Guidance and Transparency Rules, being disclosure of related party transactions and changes therein.

(iii) 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

27 July 2017

Income Statement

(unaudited)

For the six months ended 30 June 2017

	Six months ended 30 June 2017 Revenue £'000	Capital £'000	Total £'000
Realised net gains/(losses) on sales	–	38,833	38,833
Movement in fair value	–	109,981	109,981
Net gains/(losses) on investments	–	148,814	148,814
Investment income	24,573	–	24,573
Other income	–	–	–
Investment management fee (Note 2)	(1,736)	(2,893)	(4,629)
Transaction costs	–	(1,503)	(1,503)
Other expenses	(380)	–	(380)
Net return before finance costs and tax	22,457	144,418	166,875
Finance costs	(102)	(171)	(273)
Return on ordinary activities before tax	22,355	144,247	166,602
Tax on ordinary activities	–	–	–
Return attributable to equity shareholders	22,355	144,247	166,602
Returns per Ordinary Share (Note 4)	23.71p	152.99p	176.70p

Dividends

On 27 July 2017, the Board declared an interim dividend for the year ending 31 December 2017 of 9.05p per Ordinary Share (2016 – 8.60p) which will be paid on 24 August 2017.

Income Statement

Six months ended 30 June 2016 Revenue £'000	Six months ended 30 June 2016 Capital £'000	Six months ended 30 June 2016 Total £'000	Year ended 31 December 2016 Revenue £'000	Year ended 31 December 2016 Capital £'000	Year ended 31 December 2016 Total £'000
–	(5,633)	(5,633)	–	15,577	15,577
–	(147,059)	(147,059)	–	14,097	14,097
–	(152,692)	(152,692)	–	29,674	29,674
23,577	251	23,828	39,027	5,229	44,256
–	–	–	46	–	46
(1,588)	(2,647)	(4,235)	(3,111)	(5,185)	(8,296)
–	(1,003)	(1,003)	–	(1,925)	(1,925)
(319)	–	(319)	(689)	–	(689)
21,670	(156,091)	(134,421)	35,273	27,793	63,066
(125)	(208)	(333)	(254)	(424)	(678)
21,545	(156,299)	(134,754)	35,019	27,369	62,388
(39)	–	(39)	(36)	–	(36)
21,506	(156,299)	(134,793)	34,983	27,369	62,352
22.67p	(164.75)p	(142.08)p	36.93p	28.89p	65.82p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2017

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2016	**944**	**44**	**166,343**	**983,250**	**69,647**	**1,220,228**
Return on ordinary activities after tax	–	–	–	144,247	22,355	166,602
Equity dividends paid	–	–	–	–	(20,291)	(20,291)
Purchase of Ordinary Shares	(4)	4	(4,507)	–	–	(4,507)
Balance as at 30 June 2017	**940**	**48**	**161,836**	**1,127,497**	**71,711**	**1,362,032**

For the six months ended 30 June 2016

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2015	950	38	172,625	955,881	62,385	1,191,879
Return on ordinary activities after tax	–	–	–	(156,299)	21,506	(134,793)
Equity dividends paid	–	–	–	–	(19,575)	(19,575)
Purchase of Ordinary Shares	(2)	2	(2,751)	–	–	(2,751)
Balance as at 30 June 2016	948	40	169,874	799,582	64,316	1,034,760

For the year ended 31 December 2016

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2015	950	38	172,625	955,881	62,385	1,191,879
Return on ordinary activities after tax	–	–	–	27,369	34,983	62,352
Equity dividends paid	–	–	–	–	(27,721)	(27,721)
Purchase of Ordinary Shares	(6)	6	(6,282)	–	–	(6,282)
Balance as at 31 December 2016	944	44	166,343	983,250	69,647	1,220,228

Balance Sheet

(unaudited)

As at 30 June 2017

	30 June 2017 £'000	31 December 2016 £'000	30 June 2016 £'000
Fixed assets: investments at fair value through profit or loss	**1,361,652**	1,253,247	1,063,649
Current assets			
Amounts due from brokers	**1,232**	–	191
Other debtors	**5,277**	2,881	6,329
Cash at bank	**265**	241	59
	6,774	3,122	6,579
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(161)**	(234)	(2,102)
Bank debt facility	**–**	(35,732)	(33,212)
Other creditors	**(168)**	(175)	(154)
	(329)	(36,141)	(35,468)
Net current assets/(liabilities)	**6,445**	(33,019)	(28,889)
Total assets less current liabilities	**1,368,097**	1,220,228	1,034,760
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(6,065)**	–	–
TOTAL NET ASSETS	**1,362,032**	1,220,228	1,034,760
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	**940**	944	948
Reserves:			
Capital redemption reserve	**48**	44	40
Special reserve	**161,836**	166,343	169,874
Capital reserve	**1,127,497**	983,250	799,582
Revenue reserve	**71,711**	69,647	64,316
TOTAL SHAREHOLDERS' FUNDS	**1,362,032**	1,220,228	1,034,760
Net asset value per share (Note 6)	**1,448.33p**	1,292.57p	1,092.06p
Share price	**1,249.00p**	1,109.00p	907.50p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2017

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Net cash inflow from operating activities	**17,153**	15,561	35,085
Investing activities			
Purchases of investments	**(162,276)**	(112,037)	(231,112)
Sales of investments	**199,877**	91,892	201,136
Cash inflow/(outflow) from investing activities	**37,601**	(20,145)	(29,976)
Financing activities			
Purchase of Ordinary Shares	**(4,507)**	(2,751)	(6,282)
Equity dividends paid	**(20,291)**	(19,575)	(27,721)
Interest and fees paid	**(432)**	(306)	(640)
Net (repayment)/drawdown of bank debt facilities (before costs)	**(29,500)**	26,250	28,750
Cash (outflow)/inflow from financing activities	**(54,730)**	3,618	(5,893)
Change in cash during the period	**24**	(966)	(784)
Cash at the start of the period	**241**	1,025	1,025
Cash at the end of the period	**265**	59	241

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 and updated in 2017. 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 2016 have been applied.

2. Investment Management Fee

The Managers, Aberforth Partners LLP, receive an annual management fee, payable quarterly in advance, equal to 0.75% of net assets up to £1 billion, and 0.65% thereafter.

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 2017 £'000	Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 17.85p for the year ended 31 December 2015	**–**	16,962	16,962
Special dividend of 2.75p for the year ended 31 December 2015	**–**	2,613	2,613
Interim dividend of 8.60p for the year ended 31 December 2016	**–**	–	8,146
Final dividend of 18.75p for the year ended 31 December 2016	**17,696**	–	–
Special dividend of 2.75p for the year ended 31 December 2016	**2,595**	–	–
	20,291	19,575	27,721

The interim dividend for the year ending 31 December 2017 of 9.05p (2016 – 8.60p) will be paid on 24 August 2017 to shareholders on the register on 4 August 2017. The ex dividend date is 3 August 2017. 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 2017	30 June 2016	31 December 2016
Returns attributable to Ordinary Shareholders	**£166,602,000**	£(134,793,000)	£62,352,000
Weighted average number of shares in issue during the period	**94,287,735**	94,869,880	94,730,414
Return per Ordinary Share	**176.70p**	(142.08)p	65.82p

5. Investments at fair value

In accordance with FRS 102 and FRS 104, fair value measurements have been classified using the fair value hierarchy:

Level 1 - using unadjusted quoted prices for identical instruments in an active market;
Level 2 - using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 - using inputs that are unobservable (for which market data is unavailable).

Investments held at fair value through profit or loss

As at 30 June 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,361,652**	**–**	**–**	**1,361,652**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,361,652**	**–**	**–**	**1,361,652**

As at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,253,247	–	–	1,253,247
Unlisted equities	–	–	–	–
Total financial asset investments	1,253,247	–	–	1,253,247

As at 30 June 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,043,371	20,278	–	1,063,649
Unlisted equities	–	–	–	–
Total financial asset investments	1,043,371	20,278	–	1,063,649

6. 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 2017 £'000	31 December 2016 £'000	30 June 2016 £'000
Net assets attributable	**1,362,032**	1,220,228	1,034,760
Ordinary Shares in issue at end of period	**94,041,492**	94,403,292	94,752,792
Net asset value per Ordinary Share	**1,448.33p**	1,292.57p	1,092.06p

7. Share Capital

During the period, the Company bought in and cancelled 361,800 shares (2016: 271,000) at a total cost of £4,507,000 (2016: £2,751,000). 115,336 shares have been bought back for cancellation between 1 July 2017 and 27 July 2017 at a total cost of £1,478,000.

8. Related party transactions

There were no matters during the six months ended 30 June 2017 requiring disclosure under section 412 of the Companies Act 2006.

9. 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 2016 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 2017 is unaudited.

Certain statements in this report are forward looking. 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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