Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2018

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 2018 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2018

Total Return Performance	%
Net Asset Value[1,5]	**2.6**
Numis Smaller Companies Index (XIC)[2]	**-1.2**
Ordinary Share Price[3,5]	**8.3**

	30 June 2018	31 December 2017	30 June 2017
Shareholders' Funds[4]	**£1,420m**	£1,436m	£1,362m
Market Capitalisation[5]	**£1,285m**	£1,233m	£1,175m
Actual Gearing[4]	**0.0%**	0.3%	0.0%
Ordinary Share net asset value[4]	**1,554.75p**	1,543.72p	1,448.33p
Ordinary Share price[5]	**1,406.00p**	1,326.00p	1,249.00p
Ordinary Share price discount[5]	**9.6%**	14.1%	13.8%

Cumulative Returns (%) Period to 30 June 2018	NAV[5]	Index[5]	Share Price[5]
1 year	10.0	7.6	15.7
3 years	26.6	29.8	28.2
5 years	89.2	72.3	97.1
10 years	218.1	228.0	258.3
15 years	485.5	510.9	481.5
Since inception on 10 December 1990	3,384.6	1,766.5	3,121.7

1 Represents net asset value return 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 2018 consisted of 350 companies, the largest market capitalisation of which was £1.5 billion and the aggregate market capitalisation of which was £169 billion.

3 Represents Ordinary Share price with dividends reinvested.

4 UK GAAP Measure.

5 Alternative Performance Measure (refer to the glossary in the 2017 Annual Report).

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 2018, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of +2.6%, which compares with a total return of -1.2% 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 +1.7% over the same period.

The Company’s share price total return was +8.3%, for the six months to 30 June 2018. At the end of June, the Company’s share price was at a 9.6% discount to its net asset value (31 December 2017 – 14.1%). More broadly, discounts within the AIC’s UK Smaller Companies subsector narrowed during the period, taking the average discount from 12.2% to 8.4% at 30 June 2018.

As is usual, the Managers’ report provides greater insight into the factors that influenced the Company’s NAV performance during the first half of 2018.

Dividends

Shareholders in small UK quoted companies have enjoyed a golden period since the recovery in dividends began in 2010. The first half of 2018 saw a continuation of the dividend friendly environment. The Board is pleased to announce an interim dividend of 9.5p (2017 – 9.05p) per share for the six months to 30 June 2018. This represents an increase of 5.0% 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 stand at 60.6p per share, 2.1 times the total of the 2017 final and 2018 interim dividends. The interim dividend will be paid on 31 August 2018 to Shareholders on the register as at close of business on 10 August 2018. The ex dividend date is 9 August 2018.

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.

Board changes

The Board was pleased to announce the appointment of Martin Warner as a non-executive director with effect from 1 March 2018, upon conclusion of the Annual General Meeting. Martin co-founded Michelmersh Brick Holdings plc in 1997 and served as chief executive and subsequently non-executive chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors and is Chairman of the Brick Development Association.

With effect from 1 March 2018, Julia Le Blan has been appointed Chair of the Audit Committee and Paula Hay-Plumb has also been appointed as a member of the Audit Committee.

Chairman's Statement

Gearing

It remains the Company's policy to use gearing in a tactical manner and the Company has available a £125m loan facility until June 2020, provided by The Royal Bank of Scotland International. Gearing levels are reviewed on a regular basis by the Board and Managers. As at 30 June 2018 ASCoT was ungeared, with a small net cash position. The Board remains comfortable that the Company has access to sufficient liquidity for investment purposes and for share buy-backs, as and when appropriate.

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 2018, 1,638,886 shares (1.8% of the issued share capital) were purchased for a total consideration of £22,249,000. Any shares purchased are automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital.

The Board continues to believe that at the margin, buy-ins provide an increase in liquidity for those Shareholders wishing to crystallise their investment and at the same time deliver an economic uplift for those Shareholders wishing to remain invested with the Company.

Conclusion

The Brexit journey continues. Politicians from all sides contribute to the uncertainty, the public trade opinions, large companies lobby and meanwhile small businesses appear to be just getting on with it. Some businesses see opportunities while others see risk: the currency lens undoubtedly influencing their perspective. Against a healthy global economic backdrop, the divergence between domestic and overseas businesses is most stark. Brexit, be it hard or soft, will run its course. Currency flexibility and an improving fiscal position may enhance the prospects for the UK economy once some of the Brexit hysteria fades.

Globally, the world continues to tack away from deflation and it is perhaps that journey which will prove of more significance to ASCoT shareholders over the medium term. A normalisation of interest rates, and the end of "free money" has the potential to alter the investment landscape in a radical fashion.

Akin to the small businesses in which it invests, ASCoT has been just getting on with it. It is pleasing to report on a half year where we have outperformed by 376bps, delivered a 5.0% increase in the interim dividend and returned £22m to shareholders via buy backs.

Paul Trickett
Chairman
25 July 2018
paul.trickett@aberforth.co.uk

Managers' Report

Introduction

After the very good stockmarket returns enjoyed in 2017, this year has begun more modestly. The FTSE All-Share's total return in the six months to 30 June 2018 was +1.7%, while small companies – in the form of the NSCI (XIC) – experienced a total return of -1.2%. For reasons set out in the Investment Performance section of this report, ASCoT's performance was more resilient: its NAV total return was +2.6%.

The lacklustre share price performance of UK companies, both large and small, in the opening months of 2018 was influenced by heightened concerns about macro economic and geopolitical risks. In this Donald Trump has played a central role, with his transactional approach to foreign relations in which confusion and unpredictability may indeed be by design. His threatened withdrawal from the Iranian nuclear deal has contributed to a higher oil price, which in itself acts as a drag on economic activity around the globe. Moreover, his trade initiatives threaten to exacerbate the protectionist instincts of politicians in other countries to the detriment of economic activity around the world.

Trump's domestic strategy, based on fiscal stimulus, has succeeded in supporting economic growth but brings further inflationary pressure and concern about the pace at which interest rates need to rise. The ten year US government bond has responded, with the yield rising to 3% for the first time since 2013. This is a significant move for arguably the world's most important financial instrument, which is the basis for the valuation of other assets around the world. Among these are equities and the specific implications for the value investment style are described later in this report.

To the extent that the higher ten year US yield reflects higher nominal economic growth, it is to be welcomed. However, the message is complicated by an accompanying increase in shorter term government bond yields with the effect that the yield curve has flattened. Historically, an inverted yield curve – when shorter term yields exceed longer term yields – has been a useful indicator of recession. While inversion has not come to pass, the risk inevitably tempers the enthusiasm that might otherwise accompany a return to 3% yields and a tentative normalisation of monetary conditions.

Meanwhile, in Europe, there are indications that 2017's robust recovery in economic activity has lost momentum, with various indicators suggesting that while activity continues to improve it is doing so at a more modest rate. This comes against the backdrop of renewed concern about the politics of the euro zone. Angela Merkel is confronted by domestic concerns about immigration and by Emmanuel Macron's integrationist agenda, while Italy's general election in March was followed by the eventual assumption of power by populist parties who retain a sceptical stance on the European Union.

Turning to the UK, the paradigm for such sceptics, progress with the divorce negotiations remains frustratingly slow: fundamental details about relations with the EU after March 2019 are yet to be decided. Consequently, the economy remains beset by uncertainty and gloom about UK equities is pervasive, typified by a recent survey by Bank of America Merrill Lynch suggesting that the asset class is the least popular among fund managers around the globe. Within the UK market, the closer one gets to companies exposed to the domestic economy, and thus further away from businesses whose overseas profits have been boosted by sterling weakness, the worse sentiment becomes. To an extent this is understandable: consumer behaviour continues to be hampered by wages that are struggling to grow in real terms. However, such is the negativity that many companies are being written off as "Brexit victims", when deeper scrutiny

Managers' Report

reveals a more nuanced picture. For those with a contrarian inclination, value among businesses reliant on the domestic economy continues to emerge. The Managers, while cognisant of the risk of a badly handled exit from the EU, have taken advantage of this situation by redirecting capital from overseas facing businesses to domestics as bottom-up opportunities emerge, a process described in the following section.

Investment performance

To recap, ASCoT's NAV total return in the six months to 30 June 2018 was 2.6%, which may be compared with the -1.2% return from the NSCI (XIC). The difference between the two numbers is analysed in the following table. The subsequent paragraphs provide additional detail about the influences on performance.

For the six months ended 30 June 2018	Basis points
Stock selection	142
Sector selection	165
Attributable to the portfolio of investments, based on mid prices	**307**
(after transaction costs of 15 basis points)	
Movement in mid to bid price spread	54
Cash/gearing	33
Purchase of ordinary shares	20
Management fee	(35)
Other expenses	(3)
Total attribution based on bid prices	**376**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 2.59%; Benchmark Index = -1.17%; difference is 3.76% being 376 basis points).

Style

Despite a good year of economic progress in 2017, the performance of the value stocks in the NSCI (XIC) was frustratingly subdued, to the extent that it was the style's ninth worst year since 1955. The first two months of 2018 followed a similar pattern, but, as US government bond yields rose, the value style recovered such that style had no meaningful impact on ASCoT's performance over the six months to 30 June 2018. It is tempting to compare this recent episode with the events of 2013, when ten year bond yields in the US last reached 3% and the value stocks performed strongly. Experience would thus appear to back up the theory of a relationship between the cost of money and investment style.

There are two aspects to the theory. First, today's population of value stocks is biased to companies sensitive to the economic cycle: a pick-up in economic activity, signalled by higher bond yields, thus ought to favour the value style. Second, higher bond yields imply the use of higher discount rates in valuing financial assets. Longer duration assets – i.e. those whose cash flows are weighted to more distant periods – are more affected to changes in discount rates. In stockmarket terms, growth stocks may be thought of as long duration equities, while value stocks are relative beneficiaries of a return to a normal cost of money.

Managers' Report

Size

The portfolio retains its bias towards the NSCI (XIC)'s "smaller small" constituents: companies with market capitalisations of more than £750m account for 58% of the NSCI (XIC) but for just 28% of the portfolio. This is due to the lower ratings that persist for such companies and the premium that investors at large are still willing to pay for greater size and liquidity: at the end of June 2018, NSCI (XIC) companies with market capitalisations above £750m are on average 47% more expensive, using 2018 EV/EBITA ratios, than those of £100m or less. In the six months to 30 June 2018, the larger stocks within the NSCI (XIC) – specifically, those also in the FTSE 250 – under-performed the smaller stocks, which implies that the size effect had a beneficial effect on portfolio returns.

Sector

At the sector level, the main issue since the EU referendum and the subsequent devaluation of sterling has been the contrast in fortunes between those sectors exposed to the domestic economy and those earning their profits outside the UK. From the end of May 2016 to the end of December 2017, the latter out-performed the former by 20% in total return terms, and the gap widened by a further 16% in the first half of 2018. This suited the positioning of ASCoT's portfolio, whose relatively high exposure to overseas companies going into the EU referendum was still in place at the start of the current year.

However, the extreme bearishness about the outlook for the UK economy, which was noted in the opening section of this report, has resulted in more attractively valued opportunities among the domestic sectors. Accordingly, and consistent with the indication given in the annual report, the drift of capital within the portfolio has been from overseas sectors to domestic sectors. The transition has been gradual, driven by individual opportunities, such that the portfolio retained an overseas bias through the first half. This would have helped ASCoT's performance relative to the NSCI (XIC). Entering the second half, 41% of the aggregate sales of the portfolio's holdings are generated outside the UK. This is down from 46% six months earlier and in line with the NSCI (XIC)'s overseas exposure.

Results

Of the companies that the Managers follow closely within the NSCI (XIC), many have December year ends and report results in the first calendar quarter. This year, with those involved in the mining and oil industries excluded, there were 124 such businesses. The aggregated sales and profits of the 124 rose by 9% and 2%. It was therefore a year of progress, albeit one with a squeeze on margins, particularly for those companies paying more in sterling terms for goods and services sourced from outside the UK. While domestic facing businesses experienced greater pressure on profits, it is noteworthy that most of the domestics within the analysis were still able to grow their profits.

Investment by the 124 companies was encouraging: the ratio of aggregated capital expenditure to depreciation was 1.4x. For several years now, the ratio has been well above 1x, which suggests that small and medium sized companies have been investing for future growth. This bodes well and paints a different picture from that of the overall UK economy, which is inevitably influenced by the actions of large companies. The healthy rate of investment by small companies comes alongside evidence that boards of directors are willing to deploy the balance sheet strength that was built up in the years following the financial crisis. This is consistent with

Managers' Report

a broader recovery in confidence, which is also manifest in growing dividends and gives reason for optimism about an economy that seldom seems short of bad news.

Corporate activity

The last annual report noted a relatively quiet year for M&A activity in 2017. This was surprising since valuations for small UK quoted companies were low and sterling's decline following the EU referendum rendered UK assets in general more affordable to overseas buyers. That reasoning has seen some vindication so far in 2018, with six deals announced up to the end of June, of which ASCoT owned two. The renewed enthusiasm for British businesses on the part of other corporates and private equity contrasts sharply with the Bank of America Merrill Lynch survey noted previously. Additionally, the incidence of shareholder activism within the NSCI (XIC) is notably higher so far in 2018. While the Managers choose to engage with company boards directly and discreetly, the proclamations of the public activists draw attention to opportunities within the small cap universe.

Income

The table below categorises the portfolio's holdings depending on each company's most recent dividend action. With numerous dividend increases and few cuts, it suggests a continuation of the strong growth trend that has been a feature of the portfolio and indeed the wider small company universe for the last eight years or so. The "Other" category contains companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year.

Down	Nil payers	No change	Increase	Other
4	19	20	39	3

Perhaps the most worrisome aspect about small company dividends at present is that the growth has been so strong for so long. At some point, it is probable that something will happen to bring the rate of progress back closer to the long term average of 2.7% per annum in inflation adjusted terms. However, such a setback would not appear imminent: dividend cover for the portfolio of 2.6x is in line with the average since 1990 and, while trading is difficult for some, a year of profit growth for the majority of companies in the NSCI (XIC) looks likely.

Valuations

The table below shows a small rise in the historical PE of the NSCI (XIC) over the past twelve months, which is consistent with the capital only return from the index and some modest growth in earnings per share. The portfolio remains cheaper than the opportunity base, consistent with the Managers' value investment style. The major development in PE terms within the UK stockmarket has come from large companies, with the FTSE All-Share's historical PE, according to the London Business School, dropping from 21.6x at the end of December to 13.0x at the end of June. A fall was to be expected as large companies reported their 2017 results, which benefited from higher commodity prices and the boost to overseas profits from sterling weakness. However, there was an additional factor at work: through its purchase of Reynolds, British American Tobacco earned a one-off profit that brought its historical PE down to 2x reported earnings. Given the size of the company, this distorts the PE of the FTSE All-Share, which will persist for a year. With British American Tobacco excluded, the large cap PE would be just under 17x, which is a more representative gauge of large company valuation. This would represent a premium of 20% over the small cap PE, higher than the average since 1990 of 10%.

Portfolio characteristics	**30 June 2018** ASCoT	**30 June 2018** NSCI (XIC)	30 June 2017 ASCoT	30 June 2017 NSCI (XIC)
Number of companies	**85**	**344**	84	339
Weighted average market capitalisation	**£612m**	**£889m**	£660m	£894m
Price earnings (PE) ratio (historic)	**12.2x**	**13.9x**	11.8x	13.8x
Dividend yield (historic)	**3.1%**	**2.9%**	3.0%	2.7%
Dividend cover	**2.6x**	**2.5x**	2.8x	2.7x

The table below focuses on the Managers' favoured valuation metric: the ratio of enterprise value to earnings before interest, tax and amortisation. EV/EBITA is shown for the portfolio, for the Tracked Universe – a set of 280 stocks that are followed closely by the Managers – and for certain subsets of the Tracked Universe. The analysis confirms the valuation advantage enjoyed by the portfolio in relation to the Tracked Universe and to the constituency of growth stocks in particular. The table also compares the valuations of all the Tracked Universe's domestic and overseas companies, an approach that excludes the resources sectors and those businesses with no particular geographical skew. This highlights the valuation gap between domestic and overseas companies, with the latter on a 17% premium to the former for 2018. It is noteworthy that the overseas companies are on a higher multiple of profits that have themselves, in many cases, never been higher. In contrast, the domestics are valued on lower multiples of profits that, in several instances, have already declined meaningfully.

EV/EBITA	2017	2018	2019
ASCoT	11.3x	10.6x	9.4x
Tracked universe (280 stocks)	13.9x	13.0x	11.6x
- 43 growth stocks	22.4x	18.7x	16.3x
- 237 other stocks	12.7x	12.2x	11.0x
- 55 overseas stocks	15.4x	14.9x	13.1x
- 141 domestic stocks	13.3x	12.7x	11.5x

Conclusion & outlook

It is now nine years since the last recession, a period in which total returns from the FTSE All-Share and the NSCI (XIC) have been 166% and 277% respectively. Given that length of time and the strength of those returns, a degree of nervousness about a less rewarding period is understandable. Early in the year, the markets appeared to have found good reason for concern as monetary tightening in the US combined with rising political risk around the world to cloud the outlook. And, of course, the situation in the UK is complicated by the threat of a divorce settlement that proves hostile to business.

Managers' Report

In the event, the elevated volatility of the first quarter proved transient and many indices ended the half year at or close to historical highs. However, there is a different story in the bond markets, with the US ten year yield still around 3%. This would imply better prospects for economic activity in nominal terms but it remains to be seen whether the world economy can endure such a repricing of money. The experience of 2013 does not bode well, but today's growth is more balanced among the major economies and inflationary pressures are more difficult to ignore, with employment markets tightening and populism encouraging looser fiscal policies. At the very least, 3% bond yields give financial markets pause for thought. Will the investment strategies and styles that have prospered in a decade of easy money prove so successful as circumstances change?

As these big picture issues play out and have their inevitable influence on ASCoT's performance, it is important not to lose sight of the progress being made by the substantial majority of businesses within the portfolio and the NSCI (XIC). Notwithstanding the continuing negotiations with the EU, another year of higher sales and profits looks likely. A healthy level of investment and above average dividend growth suggest confidence on the part of company boards. However, in the context of broader equity markets, valuations of small UK quoted companies remain low, especially among the "smaller small" companies and domestic businesses to which the Managers are attracted through their value investment philosophy. The combination of factors should be supportive of future returns from ASCoT's portfolio.

Aberforth Partners LLP
Managers

25 July 2018

Investment Portfolio

Fifty Largest Investments as at 30 June 2018

No.	Company	Valuation £'000	% of Total	Business Activity
1	Urban&Civic	42,760	3.0	Property - investment & development
2	Keller	37,719	2.7	Ground engineering services
3	Robert Walters	37,362	2.6	Recruitment
4	Brewin Dolphin Holdings	37,268	2.6	Private client fund manager
5	Vitec Group	35,954	2.5	Photographic & broadcast accessories
6	Huntsworth	35,219	2.5	Public relations
7	Grainger	35,023	2.5	Property - residential rentals
8	FirstGroup	34,855	2.4	Bus & rail operator
9	Coats Group	31,297	2.2	Manufacture of threads
10	Senior	30,727	2.2	Aerospace & automotive engineering
	Top Ten Investments	**358,184**	**25.2**	
11	RPS Group	29,877	2.1	Energy & environmental consulting
12	Ultra Electronics Holdings	29,665	2.1	Aerospace & defence technologies
13	Future	29,075	2.1	Special interest consumer publisher
14	Mitchells & Butlers	29,025	2.0	Operator of restaurants, pubs & bars
15	Spirent Communications	28,152	2.0	Telecoms test equipment
16	Northgate	28,037	2.0	Van rental
17	Wincanton	27,835	2.0	Logistics
18	EnQuest	27,542	1.9	Oil & gas exploration and production
19	Just Group	27,388	1.9	Individually underwritten annuities
20	Restaurant Group	27,071	1.9	Restaurant operator
	Top Twenty Investments	**641,851**	**45.2**	
21	Essentra	25,451	1.8	Filters & packaging products
22	TT Electronics	25,073	1.8	Sensors & other electronic components
23	De La Rue	24,562	1.7	Bank note printer
24	U and I Group	24,460	1.7	Property - investment & development
25	Eurocell	24,275	1.7	Manufacture of UPVC building products
26	Dunelm Group	24,178	1.7	Homewares retailer
27	International Personal Finance	24,093	1.7	Home credit provider
28	Forterra	22,958	1.6	Manufacture of bricks
29	Speedy Hire	22,497	1.6	Plant hire
30	McKay Securities	22,376	1.6	Property - London & South East offices
	Top Thirty Investments	**881,774**	**62.1**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2018

No.	Company	Valuation £'000	% of Total	Business Activity
31	Nostrum Oil & Gas	22,197	1.6	Oil & gas exploration and production
32	Morgan Advanced Materials	22,086	1.6	Manufacture of carbon & ceramic materials
33	RM	22,085	1.5	IT services for schools
34	Go-Ahead Group	21,301	1.5	Bus & rail operator
35	SDL	21,277	1.5	Software - translation & content management
36	TI Fluid Systems	20,459	1.4	Automotive parts manufacturer
37	Ei Group	17,992	1.3	Leased & managed pub operator
38	Anglo Pacific Group	17,303	1.2	Natural resources royalties
39	McColl's Retail Group	15,861	1.1	Retailing - convenience stores
40	Halfords Group	14,389	1.0	Automotive & cycling products retailer
	Top Forty Investments	**1,076,724**	**75.8**	
41	Non-Standard Finance	14,144	1.0	Home credit provider
42	Vectura Group	14,023	1.0	Inhaled pharmaceuticals - respiratory specialism
43	Gulf Marine Services	13,903	1.0	Build & rental of support vessels
44	Charles Stanley Group	13,633	0.9	Private client fund manager
45	DFS Furniture	13,511	0.9	Furniture retailer
46	SIG	13,061	0.9	Specialist building products distributor
47	Reach	12,786	0.9	UK newspaper publisher
48	Castings	12,472	0.9	Engineering - automotive castings
49	Stagecoach Group	12,191	0.9	Bus & rail operator
50	N Brown Group	11,465	0.8	Catalogue retailer
	Top Fifty Investments	**1,207,913**	**85.0**	
	Other Investments (35)	206,929	14.6	
	Total Investments	**1,414,842**	**99.6**	
	Net Assets	5,584	0.4	
	Total Net Assets	**1,420,426**	**100.0**	

Long Term Investment Record

Historic Total Returns[5]

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30 June 2018	10.0	7.6	15.7
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

Periods to 30 June 2018	Annualised Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	22.2	17.9	27.9	49.3	39.0	63.7
3 years	8.2	9.1	8.6	26.6	29.8	28.2
4 years	9.5	9.4	10.6	43.6	43.3	49.5
5 years	13.6	11.5	14.5	89.2	72.3	97.1
6 years	17.1	14.7	19.1	157.9	127.1	185.0
7 years	13.0	11.8	13.9	135.4	117.8	149.2
8 years	15.7	14.4	16.5	220.9	192.4	239.8
9 years	16.0	15.8	16.4	281.5	274.3	291.5
10 years	12.3	12.6	13.6	218.1	228.0	258.3
15 years	12.5	12.8	12.5	485.5	510.9	481.5
27.6 years from inception[4]	13.8	11.2	13.4	3,384.6	1,766.5	3,121.7

1 Represents Net Asset Value 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.

5 Alternative Performance Measures (refer to the glossary in the 2017 Annual Report).

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 2017 Annual Report. These principal risks and uncertainties have not changed from those disclosed in the 2017 Annual Report, albeit the political environment remains volatile.

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

25 July 2018

Income Statement

(unaudited)

For the six months ended 30 June 2018

	Six months ended 30 June 2018		
	Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	–	110,936	110,936
Movement in fair value	–	(100,398)	(100,398)
Net gains on investments	–	10,538	10,538
Investment income	25,514	3,429	28,943
Other income	–	–	–
Investment management fee (Note 2)	(1,879)	(3,131)	(5,010)
Transaction costs	–	(2,114)	(2,114)
Other expenses	(367)	–	(367)
Net return before finance costs and tax	23,268	8,722	31,990
Finance costs	(152)	(254)	(406)
Return on ordinary activities before tax	23,116	8,468	31,584
Tax on ordinary activities	–	–	–
Return attributable to equity shareholders	23,116	8,468	31,584
Returns per Ordinary Share (Note 4)	25.08p	9.19p	34.27p

Dividends

On 25 July 2018, the Board declared an interim dividend for the year ending 31 December 2018 of 9.50p per Ordinary Share (2017 – 9.05p) which will be paid on 31 August 2018.

Income Statement

	Six months ended 30 June 2017 Revenue £'000	Six months ended 30 June 2017 Capital £'000	Six months ended 30 June 2017 Total £'000	Year ended 31 December 2017 Revenue £'000	Year ended 31 December 2017 Capital £'000	Year ended 31 December 2017 Total £'000
	–	38,833	38,833	–	82,525	82,525
	–	109,981	109,981	–	149,851	149,851
	–	148,814	148,814	–	232,376	232,376
	24,573	–	24,573	43,676	–	43,676
	–	–	–	1	–	1
	(1,736)	(2,893)	(4,629)	(3,615)	(6,026)	(9,641)
	–	(1,503)	(1,503)	–	(2,651)	(2,651)
	(380)	–	(380)	(750)	–	(750)
	22,457	144,418	166,875	39,312	223,699	263,011
	(102)	(171)	(273)	(249)	(415)	(664)
	22,355	144,247	166,602	39,063	223,284	262,347
	–	–	–	–	–	–
	22,355	144,247	166,602	39,063	223,284	262,347
	23.71p	152.99p	176.70p	41.59p	237.73p	279.32p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2018

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2017	**930**	**58**	**148,201**	**1,206,534**	**79,919**	**1,435,642**
Return on ordinary activities after tax	–	–	–	8,468	23,116	31,584
Equity dividends paid	–	–	–	–	(24,551)	(24,551)
Purchase of Ordinary Shares	(16)	16	(22,249)	–	–	(22,249)
Balance as at 30 June 2018	**914**	**74**	**125,952**	**1,215,002**	**78,484**	**1,420,426**

For the year ended 31 December 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	–	–	–	223,284	39,063	262,347
Equity dividends paid	–	–	–	–	(28,791)	(28,791)
Purchase of Ordinary Shares	(14)	14	(18,142)	–	–	(18,142)
Balance as at 31 December 2017	930	58	148,201	1,206,534	79,919	1,435,642

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

Balance Sheet

(unaudited)

As at 30 June 2018

	30 June 2018 £'000	31 December 2017 £'000	30 June 2017 £'000
Fixed assets: investments at fair value through profit or loss	**1,414,842**	1,440,496	1,361,652
Current assets			
Amounts due from brokers	**28**	–	1,232
Other debtors	**5,039**	3,649	5,277
Cash at bank	**678**	293	265
	5,745	3,942	6,774
Creditors (amounts falling due within one year)			
Amounts due to brokers	**–**	–	(161)
Other creditors	**(161)**	(199)	(168)
	(161)	(199)	(329)
Net current assets	**5,584**	3,743	6,445
Total assets less current liabilities	**1,420,426**	1,444,239	1,368,097
Creditors (amounts falling due after more than one year)			
Bank debt facility	**–**	(8,597)	(6,065)
TOTAL NET ASSETS	**1,420,426**	1,435,642	1,362,032
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	**914**	930	940
Reserves:			
Capital redemption reserve	**74**	58	48
Special reserve	**125,952**	148,201	161,836
Capital reserve	**1,215,002**	1,206,534	1,127,497
Revenue reserve	**78,484**	79,919	71,711
TOTAL SHAREHOLDERS' FUNDS	**1,420,426**	1,435,642	1,362,032
Net asset value per share (Note 6)	**1,554.75p**	1,543.72p	1,448.33p
Share price	**1,406.00p**	1,326.00p	1,249.00p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2018

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Net cash inflow from operating activities	**21,946**	17,153	32,501
Investing activities			
Purchases of investments	**(234,976)**	(162,276)	(301,163)
Sales of investments	**269,345**	199,877	343,405
Cash inflow from investing activities	**34,369**	37,601	42,242
Financing activities			
Purchase of Ordinary Shares	**(22,249)**	(4,507)	(18,142)
Equity dividends paid	**(24,551)**	(20,291)	(28,791)
Interest and fees paid	**(380)**	(432)	(758)
Net repayment of bank debt facilities (before costs)	**(8,750)**	(29,500)	(27,000)
Cash outflow from financing activities	**(55,930)**	(54,730)	(74,691)
Change in cash during the period	**385**	24	52
Cash at the start of the period	**293**	241	241
Cash at the end of the period	**678**	265	293

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 2018. 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 2017 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 2018 £'000	Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 18.75p for the year ended 31 December 2016	**–**	17,696	17,696
Special dividend of 2.75p for the year ended 31 December 2016	**–**	2,595	2,595
Interim dividend of 9.05p for the year ended 31 December 2017	**–**	–	8,500
Final dividend of 19.75p for the year ended 31 December 2017	**18,332**	–	–
Special dividend of 6.70p for the year ended 31 December 2017	**6,219**	–	–
	24,551	20,291	28,791

The interim dividend for the year ending 31 December 2018 of 9.50p (2017 – 9.05p) will be paid on 31 August 2018 to shareholders on the register on 10 August 2018. The ex dividend date is 9 August 2018. 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 2018	30 June 2017	31 December 2017
Returns attributable to Ordinary Shareholders	**£31,584,000**	£166,602,000	£262,347,000
Weighted average number of shares in issue during the period	**92,176,403**	94,287,735	93,923,545
Return per Ordinary Share	**34.27p**	176.70p	279.32p

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 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,414,842**	**–**	**–**	**1,414,842**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,414,842**	**–**	**–**	**1,414,842**

As at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,440,496	–	–	1,440,496
Unlisted equities	–	–	–	–
Total financial asset investments	1,440,496	–	–	1,440,496

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

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 2018 £'000	31 December 2017 £'000	30 June 2017 £'000
Net assets attributable	**1,420,426**	1,435,642	1,362,032
Ordinary Shares in issue at end of period	**91,360,251**	92,999,137	94,041,492
Net asset value per Ordinary Share	**1,554.75p**	1,543.72p	1,448.33p

7. Share Capital

During the period, the Company bought in and cancelled 1,638,886 shares (2017: 361,800) at a total cost of £22,249,000 (2017: £4,507,000). 209,000 shares have been bought in for cancellation between 1 July 2018 and 25 July 2018 at a total cost of £2,895,000.

8. Related party transactions

There were no matters during the six months ended 30 June 2018 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 2017 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 2018 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.

Corporate Information

Directors
S Paul Trickett (Chairman)
Paula M Hay-Plumb
Julia Le Blan
Richard A Rae
Martin R Warner

Investment Managers & Secretaries
Aberforth Partners LLP
14 Melville Street
Edinburgh EH3 7NS
Tel: 0131 220 0733
Email: enquiries@aberforth.co.uk
www.aberforth.co.uk

Depositary
National Westminster Bank plc
Trustee & Depositary Services
Drummond House
1 Redheughs Avenue
Edinburgh EH12 9RH

Registrars
Link Asset Services
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder enquiries:
Tel: 0871 664 0300
(Calls cost 12p per minute plus network extras)
Email: shareholderenquiries@linkgroup.co.uk
www.linkassetservices.com
Shareholder Portal: www.signalshares.com

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Bankers
The Royal Bank of Scotland International Limited
280 Bishopsgate
London EC2M 4RB

Independent Auditor
Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Solicitors & Sponsors
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Registered Office
14 Melville Street
Edinburgh EH3 7NS

Registered in Scotland No:
SC 126524

Security Codes

SEDOL:	0006655
Bloomberg :	ASL LN
Reuters:	ASL.L
GIIN:	U6SSZS.99999.SL.826
LEI:	213800GZ9WC73A92Q326