Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2021

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 that of 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 2021 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2021

Total Return Performance	%
Net Asset Value[1,5]	**33.5**
Ordinary Share Price[3,5]	**24.9**
Numis Smaller Companies Index (XIC)[2]	**17.4**

	30 June 2021	31 December 2020	30 June 2020
Shareholders' Funds[4]	**£1,502m**	£1,148m	£886m
Market Capitalisation[5]	**£1,355m**	£1,109m	£827m
Actual Gearing[4]	**5.1%**	6.1%	2.5%
Ordinary Share net asset value[4]	**1,696.49p**	1,292.38p	989.16p
Ordinary Share price[5]	**1,530.00p**	1,248.00p	924.00p
Ordinary Share price discount[5]	**9.8%**	3.4%	6.6%

Cumulative Returns (%) Period to 30 June 2021	NAV[5]	Index[5]	Share Price[5]
1 year	76.3	49.8	70.8
3 years	18.2	20.5	18.8
5 years	76.4	67.4	94.5
10 years	178.1	162.5	196.1
15 years	255.0	272.7	283.4
Since inception on 10 December 1990	4,017.3	2,148.8	3,727.8

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 2021 consisted of 334 companies, the largest market capitalisation of which was £1.5 billion and the aggregate market capitalisation of which was £141 billion.

3 Represents Ordinary Share price return with dividends reinvested.

4 UK GAAP Measure (refer to the glossary in the 2020 Annual Report).

5 Alternative Performance Measure (refer to the glossary in the 2020 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

Performance review

After a good finish to 2020, ASCoT continued to enjoy a period of strong performance in the six months to 30 June 2021. The Company's net asset value total return was 33.5%. However, the discount of the share price to the net asset value expanded from 3.4% to 9.8% and so the share price total return was 24.9%. To give context to these figures, the six months saw a 17.4% return from the Company's investment benchmark, the Numis Smaller Companies Index (excluding investment companies) (NSCI (XIC)). The performance of larger companies was less strong, which is indicated by the 11.1% return from the FTSE All-Share.

While remaining mindful of its profound effects on our lives and businesses, I would observe that the pandemic has been a stern test for advocates of stockmarket efficiency. ASCoT's 33.5% total return was the second strongest calendar six months in ASCoT's 30 year history. A year ago, I was reporting on the Company's weakest ever calendar six month return. The contrast in these numbers says more about human emotion and discomfort with uncertainty than about the fundamental performance of the companies in which ASCoT invests. As the Managers' Report explains, one of the main themes of the pandemic period has been the resilience of businesses even when faced by the extraordinary challenges of lockdown, recession and the virus itself.

Of course, the sharp improvement in investment returns has at its roots the human ability to respond to uncertainty. The development of the vaccines was remarkable for its ingenuity and speed. The subsequent rollout in the UK has been fast and well managed. This has allowed the economy and profits to start their recovery, and the stockmarket to continue the rebound that began in November last year.

Dividends

The recovery is already evident in the dividend announcements by ASCoT's holdings over the past six months. The Managers' Report provides more detail, but for now I would note that more companies have resumed dividend payments than were expected even six months ago. This has led to a significant improvement in the Company's Income Statement, though it is worth recalling that the comparative period was afflicted by the worst downturn for small company dividends in the NSCI (XIC)'s 66 year history.

Nonetheless, the improvement is meaningful and the Board is therefore pleased to announce an interim dividend of 10.95p per Ordinary Share in respect of the six months to 30 June 2021. This is 5.3% higher than the corresponding payment last year. Should the final dividend be raised at a similar rate, the prevailing forecasts for the holdings imply that the Company would draw modestly on its revenue reserves in 2021. This would be consistent with the Board's progressive dividend policy, which encompasses an ambition to raise ASCoT's dividend in real terms even in years of weaker income performance from the asset class.

While the recovery appears well under way, the Managers' current forecasts for investee companies suggest that pre-pandemic levels of dividends are unlikely to be surpassed till 2023. ASCoT's revenue reserves, which were 56.7p per Ordinary Share at 31 December 2020, are an important tool that allows the Board to smooth the dividend experience for Shareholders through volatile periods such as we are presently experiencing.

Chairman's Statement

The interim dividend will be paid on 27 August 2021 to Shareholders on the register as at close of business on 6 August 2021. The ex dividend date is 5 August 2021. The Company operates a Dividend Reinvestment Plan, details of which are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Gearing

ASCoT's policy is to utilise gearing in a tactical fashion, seeking to take advantage of periods of severe weakness in share prices. The impact of the pandemic presented the opportunity to deploy gearing for the fourth time in 30 years. The £130m debt facility to enable this is provided by The Royal Bank of Scotland International. It has a term running to June 2023, which is designed to dovetail with the three-yearly continuation vote cycle.

Gearing at the start of 2021 was 6.1% of Total Shareholders' Funds. At 30 June 2021, the ratio had fallen to 5.1%, which is consistent with the increase of share prices through the first half of the year. Despite that recovery, the Board is comfortable with the continued use of the gearing facility: as the Managers' Report explains, prospects for ASCoT's investee companies remain good and valuations attractive.

Share buy-back

The Company seeks authority to buy back up to 14.99% of its Ordinary Shares at the Annual General Meeting. The authority was renewed in March. In the six months to 30 June 2021, 270,000 shares were bought back and cancelled. The total value of these repurchases was £3.9m, on an average discount of 9.6%.

The Board continues to believe that, at the margin, buy-backs 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

Crises bring about opportunities and change – to how we live, how we do business and to how stockmarkets value businesses. The global financial crisis of 2008 and 2009 resulted in populist politics, extraordinary monetary policies and a golden period for growth investors. It is likely that the pandemic will also herald changes, though I believe that it is still too soon to have confidence in what these will be.

Nevertheless, it is the role of financial markets to weigh what might come to pass. In recent months, they have been inspired by Joe Biden's ambitious spending plans, alongside the consequences of the rebound from lockdown, to focus on the threat of rising inflation. The challenge to three decades of disinflation has encouraged a tentative rotation within equity markets from growth stocks to value stocks. Should this flirtation develop into an enduring period of rising prices, the outlook for equities is unclear since their relationship with inflation is complicated. There is historical evidence that stocks can perform reasonably well unless the rate of inflation breaches 4% and that value stocks, including ASCoT's portfolio, can fare relatively well.

Chairman’s Statement

This somewhat speculative helicopter view contrasts with one of the themes of my opening comments and of the Managers’ Report, namely the underlying reliability and resilience of the companies in which ASCoT invests. They are emerging from what should be the most difficult phase of the pandemic with balance sheets in good shape and cost bases primed to take advantage of recovering demand. It is to ASCoT’s benefit and the Managers’ credit that they retained confidence in their value discipline and in these businesses when their fortunes, as gauged by share prices, were at their lowest ebb last year.

Share prices have now enjoyed a good recovery, but forward valuations for the portfolio and for small UK quoted companies as a whole remain attractive. The Board is also encouraged by the reawakened interest in UK assets, which have been global pariahs since the EU referendum in 2016. While not oblivious to the inevitable risks and challenges of equity investment, we consider ASCoT to be well positioned for what is to come.

As a Board we welcome the views of Shareholders and are available to discuss these with you directly. My email address is noted below. Thank you for your support.

Richard Davidson
Chairman
27 July 2021
richard.davidson@aberforth.co.uk

Managers' Report

Introduction

The performance described in this report covering the six months to 30 June 2021 makes rather more pleasant reading than a year ago. The FTSE All-Share's total return was 11.1%. This was bettered by small UK quoted companies, with a 17.4% return generated by the NSCI (XIC). ASCoT's net asset value total return was 33.5%. These figures help repair most of the damage to ASCoT's performance inflicted in the early months of the pandemic. Indeed, the period under review was the second best calendar six months – in absolute and relative terms – for ASCoT since its inception in 1990.

The main influence on these unusually strong numbers was the vaccines. Their arrival in November last year precipitated a powerful recovery in asset prices, which has continued into 2021. Financial markets anticipated a normalisation in societal behaviour and a sharp recovery in activity, which is now showing through in macro economic data releases and in trading updates from companies.

The high returns from ASCoT's portfolio are a reminder of how desperate sentiment had become a year ago. Companies sensitive to the economic cycle, many of which were classified as value stocks, saw their share prices collapse as concerns about these businesses' viability reached a peak. Clearly, the vaccines eased the threat, but it is necessary to acknowledge the resilience of small UK quoted companies through 2020. Some of that resilience was due to external help, from lenders, governments and central banks. Shareholders also played a part, though the frequency of rights issues and placings amongst constituents of the NSCI (XIC) has been lower than the Managers had expected. Much of the resilience was down to internal measures put in place by boards that have undergone several tests in recent years, from the global financial crisis through the Eurozone crisis to Brexit. The consequence is that the corporate sector has passed the inflection point. Despite lingering lockdown conditions, profits are starting to recover and balance sheets are strengthening as free cash flow is generated. The improved outlook has allowed many boards to reinstate dividends, more quickly than expected even six months ago.

Another factor contributing to the good performance of constituents of the portfolio and of the NSCI (XIC) was – for the first time in several years – their "Britishness". This is not a jingoistic point but reflects the fact that prospects for UK companies have been under a cloud since the EU referendum. And, just as the political uncertainty of Brexit was lifting, the challenges of the pandemic and lockdown arrived. These events led to deep under-performance from UK equities over the last five years and to very low valuations in the global context. But the successful vaccine roll-out has been a catalyst for a reappraisal: the FTSE All-Share has out-performed global equities since October 2020, with domestically oriented small companies performing particularly strongly. The renewed interest in UK assets also comes through in higher corporate activity in the form of both M&A and IPOs.

The vaccines have been a catalyst for the reappraisal of this "Britishness" and economic cyclicality, which has boosted the share prices of value stocks. The value style has also benefited from concerns about inflation. Growth stocks, whose valuations are skewed to cash flows generated in the more distant future, are more sensitive than value stocks to increases in discount rates and bond yields. Therefore, to the extent that higher inflation – whether actual or expected – raises bond yields, value tends to benefit relative to the growth style.

Evidence of inflationary pressure is abundant at present. Consumer prices are rising at 3-5% per annum in major western economies, while various gauges of inflation expectations have also risen to their highest levels for several years. These top-down measures are corroborated by commentary from many companies. Second order effects of the pandemic are raising raw material prices and, with some teething trouble from the Brexit trade deal, are constraining supply chains. These may be considered temporary consequences of the pandemic, but they are happening against the background of a continuation of extraordinary monetary policy, massive growth in money supply and trillion dollar fiscal programmes in the US. In this context, it is somewhat puzzling that government bond yields have not risen further, but the inertia that comes with the conditioning of three decades of disinflation is considerable.

Analysis of performance

ASCoT’s NAV total return in the six months to 30 June 2021 was 33.5% which compares with 17.4% from the NSCI (XIC). The table below, together with the following paragraphs, describe important influences on ASCoT’s absolute and relative performance.

For the six months ended 30 June 2021	Basis points
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 12 basis points)	**1,407**
Movement in mid to bid price spread	26
Cash/gearing	211
Purchase of ordinary shares	4
Management fee	(40)
Other expenses	(3)
Total attribution based on bid prices	**1,605**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 33.47%; Benchmark Index = 17.42%; difference is 16.05% being 1,605 basis points).

Style

As noted above, the economic and financial market backdrop turned more conducive to the value investment style with the arrival of the vaccines. Using price to book ratios for the purpose of categorisation, the London Business School calculates that the NSCI (XIC)’s value cohort out-performed its growth stocks by 11% in the first half of 2021. While the Managers’ definition of value is broader and their investment cases are based on more than a near term valuation ratio, this degree of difference is indicative of a boost to ASCoT’s performance from investment style.

Size

ASCoT’s portfolio has had a higher exposure than the NSCI (XIC) to the index’s smaller constituents for several years. This reflects the considerably lower valuations on offer down the scale of market capitalisations, irrespective of companies’ fundamental prospects. This size positioning was beneficial to ASCoT’s returns in the six months to 30 June 2021. A useful gauge of this is a comparison of returns from the FTSE SmallCap and the FTSE 250 – the former out-performed the latter by 17%. Despite this, the valuation advantage of smaller small companies remains, so the portfolio ended the first half with 31% invested in the NSCI (XIC)’s mid cap constituents against 65% in these companies for the NSCI (XIC) itself.

Geography

Exposure to the UK’s domestic economy has been an important influence on UK equities since 2016’s EU referendum. As sterling adjusted to the implications of the leave vote, the share prices of companies that do most of their business outside the UK performed more strongly than those reliant on the domestic economy. The political clarity promised by the decisive election result at the end of 2019 was short lived. It was quickly overwhelmed by the pandemic as lockdown measures were more punitive for domestic businesses. However, since the vaccine announcements, the total returns of domestic facing companies out-performed by 8% in anticipation of re-opening and a normalisation of spending. This has benefited ASCoT's performance since the portfolio retains a relatively high exposure to the domestic economy. At 30 June 2021, 57% of the portfolio holdings' underlying sales were generated in the UK, compared with 52% for the NSCI (XIC).

Dividends

Recent dividend experience is encouraging, though some context is important. Last calendar year saw the steepest fall in small company dividends since records began in 1955 – according to the London Business School's calculations, aggregate dividends from the NSCI (XIC) fell by 52%, adjusted for inflation. Given the severity of this decline and the effect of a low base, a further fall was unlikely. Nevertheless, the recovery has so far proved broader and swifter than expected six months ago. Current estimates are for dividend growth of around 25% from small companies in 2021, though this perhaps feels low given recent announcements. The following table splits ASCoT's holdings at 30 June 2021 into categories corresponding to their most recent dividend action.

Nil payer	Cutter	Unchanged payer	Increased payer	Returners	Other*
33	5	7	9	22	2

*An IPO and a company paying dividends for the first time

The "Returners" category points to the resilience of the holdings. It contains companies that stopped dividends in the first part of 2020 as the pandemic took effect but that have returned to paying dividends a year or less later. The Managers expect that current constituents of "Returners" will progress to "Unchanged payer" or "Increased payer" over the next twelve months, while many of today's "Nil payers" will resume dividend payments and temporarily repopulate "Returners". In due course, membership of "Returners" should dwindle, as should the "Nil payers". This latter category currently contains both cyclical nil payers, which are companies that have been affected by the pandemic and that should return to the dividend register, and structural nil payers, which are companies that are prioritising other uses of their free cash flows.

Balance sheets

The resilience of small companies illustrated by the dividend analysis also comes through in terms of balance sheet leverage.

Portfolio weight	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
2020	28%	36%	19%	17%
2021	30%	43%	17%	10%
2022	41%	41%	11%	7%
2023	43%	45%	5%	7%

*Includes loss-makers and lenders

Managers' Report

The Managers forecast the portfolio's exposure to companies with net cash to rise strongly over the recovery period, while exposure to companies with relatively high leverage ratios of more than two times declines sharply. This strengthening of balance sheets is driven by the generation of free cash flow – no incremental equity issuance is assumed. Companies have needed to issue less equity through the pandemic period than the Managers had expected. This was due to the combination of tight control of cash by the companies themselves, government support and relaxed terms from existing lenders. However, the ending of furlough schemes and the impact of recovering revenues on working capital requirements may see a tail of equity issues through 2021, while other companies are looking to raise equity to support acquisitions or accelerate investment. In the first half, ASCoT supported eight equity raises by its holdings, subscribing to a total of just under £26m new equity. The comparable numbers in the whole of 2020 were 10 and £30m.

The resilience displayed in the table should allow companies to accelerate investment plans, particularly if they can benefit from the super-deduction scheme announced by Rishi Sunak in the Budget. Alternatively, companies may return cash to shareholders or, if valuations make sense, acquisitions may be considered.

Corporate activity

The vaccine rally has seen an upsurge in corporate activity around the world. The total value of pending and completed M&A deals announced in the first half of 2021 was an all-time high of $2.8 trillion, according to Refinitiv. The UK has very much been a part of this, with the low valuations of British assets proving particularly attractive to acquirers. On top of the numerous deals outside the NSCI (XIC), there have been nine takeover transactions announced within the index itself. Of these, ASCoT held two in its portfolio. The Managers believe that the valuations of both these deals were fair, but the risk remains that typical takeover premiums fail to reflect appropriate value for small UK quoted companies whose valuations have been depressed by Brexit and the pandemic. It is important not to cede control cheaply to opportunistic would-be acquirers.

On top of the rise in M&A, the UK stockmarket has seen its first meaningful bout of IPO activity for several years. Sixteen companies have floated whose current market capitalisations could make them eligible for inclusion in the NSCI (XIC) on its 1 January 2022 rebalancing. Most of these companies have online business models that thrived during lockdown and so, at today's valuations, are of greater appeal to growth investors. The stretch between the valuations of these recent IPOs and comparable businesses held in the portfolio is considerable. The Managers believe that these divergent valuations fail to reflect the fact that many "old economy" businesses have been investing in their online offerings. Well-articulated "omni-channel" strategies, under which established businesses seek to sell both online and through physical stores, are common and are likely to find increased relevance as lockdown measures are eased.

Portfolio turnover

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. Over the twelve months to 30 June 2021, the rate was 30%. There can be a relationship between higher rates of turnover and better relative performance from ASCoT's portfolio – if the share price of a holding rises close to the Managers' target, there is the opportunity to realise value and redeploy the proceeds in another company with a higher upside. The Managers term this the "value roll". Since the financial crisis, annual turnover has ranged from the mid teens in 2019 to 40%, reflecting the very strong relative performance in 2013.

Active share

Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. The higher a portfolio's active share, the higher its chance of either out or under-performing the index. The Managers target a ratio of at least 70% in relation to the NSCI (XIC). At 30 June 2021, it was 75%.

Valuations

Portfolio characteristics	**30 June 2021** ASCoT	**30 June 2021** NSCI (XIC)	30 June 2020 ASCoT	30 June 2020 NSCI (XIC)
Number of companies	**78**	**324**	81	330
Weighted average market capitalisation	**£680m**	**£996m**	£442m	£760m
Price earnings (PE) ratio (historical)	**14.1x**	**17.4x**	6.1x	10.3x
Dividend yield (historical)	**1.6%**	**1.7%**	3.7%	2.4%
Dividend cover	**4.5x**	**3.4x**	4.4x	4.1x

At points during 2020, with the pandemic at its most intense, the portfolio's historical price earnings ratio (PE) reached its lowest level in 30 years, in both absolute terms and relative to the NSCI (XIC). Since the commencement of the vaccine rally, both measures have returned to the middle of their historical ranges: as the table above shows, the PE of the portfolio at 30 June 2021 was 14.1x and the discount to the index's PE was 19%. There are two factors behind the portfolio's re-rating. First, share prices recovered strongly, with ASCoT managing to out-perform the NSCI (XIC)'s return. Second, companies have started reporting results that have been affected by the lockdown conditions of 2020 and so the historical earnings used in the PE calculation have fallen. This latter dynamic has yet to play out in full, which means that the PE should rise further over coming months even if prices stay the same.

Of course, the stockmarket looks ahead and, in taking historical or near term valuation multiples to high levels, is anticipating a recovery of profits over subsequent years. The following table sets out forward valuation multiples, using the Managers' favoured valuation metric of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). The Tracked Universe comprises 246 companies within the NSCI (XIC) that the Managers follow particularly closely.

EV/EBITA	2020	2021	2022	2023
ASCoT	13.6x	10.5x	8.7x	7.5x
Tracked Universe (246 stocks)	15.2x	12.9x	10.7x	9.6x
- 43 growth stocks	19.5x	22.2x	19.2x	16.7x
- 203 other stocks	14.5x	11.9x	9.8x	8.8x

Managers' Report

The forecasts underling the EV/EBITA multiples are the Managers' and anticipate aggregate small company profits to return to pre-pandemic levels in 2023. The profits of the portfolio's holdings are expected to grow more strongly than those of the Tracked Universe over the forecast period. This reflects the higher economic cyclicality of ASCoT's portfolio – profits fell further in 2020 and, all else equal, have greater scope to recover. By 2023, ASCoT's EV/EBITA multiples are around 20% lower than those of the Tracked Universe. This was the sort of discount that prevailed before the onset of the pandemic and, indeed, has been typical over recent years. Another useful reference point is the recent upsurge in M&A deals – these have been struck at much higher multiples than those prevailing for similar businesses in which ASCoT invests.

To be clear, the investment cases for all portfolio holdings are based on more than a near term valuation ratio. The Managers determine a target price for each holding, which is usually based upon an estimate of normalised profits to which a multiple is applied. The emphasis of the investment process is assessment of the appropriate multiple, taking into account factors such as the company's market position, its record, its management and its longer term prospects. The ranking by upside to price targets allows the Managers to circulate capital from companies whose share prices are near their calculated values to those with a larger gap between the two. The relatively low aggregate valuations for the portfolio, shown in the table, indicate the scope for this circulation of capital. Over time this "value roll" can make a meaningful contribution to investment returns.

Outlook and conclusion

While the pandemic has almost certainly peaked, it continues to cast a shadow on the outlook. From the epidemiological perspective, new variants would seem inevitable, though the vaccines gives cause for optimism that this risk can be controlled if global deployment is swift. Arguably, the greater issue for society, for the economy and for companies is how government chooses to address the risk. So-called "Covid Zero" policies would have profound and lasting implications for how we live our lives and do business.

Another set of risks emerges from the measures by governments and central banks to offset the impact of the virus on the economy. Furlough has succeeded in averting mass unemployment, but it is necessary to get through the Autumn's expiry of the Job Retention Scheme to assess the more lasting consequences and the willingness of consumers to spend the substantial savings accumulated during lockdown. The passage of time will also allow better understanding of the underlying effects of the UK's new relationship with the EU, which have so far been largely obscured by the pandemic.

Eventually, the official support programmes will have to be paid for and it seems inevitable that the Chancellor will describe a path to tighter fiscal policy in due course. For the time being, however, monetary and fiscal stimuluses are in full swing, which, together with price pressures arising from the pandemic, is fomenting concern about inflation. On the other hand, it is noteworthy that the financial markets' enthusiasm for reflation ebbed in June in response to further evidence of slowing Chinese growth and to the Federal Reserve's latest prognostications for the US monetary policy. The debate between inflationists and deflationists is, therefore, finely balanced at present, but a nuanced outlook can itself be helpful to the value style given that markets have been positioned decisively for deflation ever since the financial crisis. A lasting turn to inflation, and higher bond yields, should be relatively good for the value investment style, though its effect on equity valuations would have to be accompanied by careful scrutiny of the pricing power of individual businesses.

Managers' Report

These big picture issues will be important to ASCoT's future investment returns, but the main influence is the fortunes of the investee companies. Just twelve months ago, the stockmarket's judgement of their prospects was unequivocal: many were valued in a way that suggested their very viability was at risk. Given the unprecedented nature of the pandemic, valuations should have reflected a degree of uncertainty, but that judgement has proved much too harsh. The subsequent rebound in economic activity, in profitability and in share prices owes much to the astonishingly rapid development and roll-out of the vaccines. However, companies and their boards deserve credit too: the resilience demonstrated by ASCoT's holdings, and small companies more generally, is testament to the fact that these are well run businesses whose products and services are relevant even in a world living with Covid-19. Once this recovery phase ends, the Managers are confident that these companies will continue to grow their profits in real terms, exceed their cost of capital and generate free cash flow. At some point, the convincing record of these cyclical companies in dealing well with economic shocks should be recognised by the stockmarket with higher valuations.

While the profile of the recovery is assuming the classic "V" shape for the economy and stockmarket, not all of ASCoT's holdings have seen their share prices return to their pre-pandemic levels. At 30 June 2021, 53% of the portfolio was invested in companies whose prices were lower than at 31 December 2019, with a weighted average decline of 26%. This is one illustration that normalisation of economic activity, company profits and share prices should have further to run.

Not all companies will emerge from the pandemic as profitable as when they entered it – there will be longer term winners and losers. At points last year, the stockmarket seemed to judge that ASCoT owned only the losers, while the share prices of technology companies and other work-from-home beneficiaries rose sharply. However, the portfolio contains companies that have taken advantage of the pandemic's disruption to adapt their business models, to improve their ability to do business online and to restructure their cost bases.

In conclusion, the low stockmarket valuations of ASCoT's portfolio holdings contrast with the resilience of the underlying businesses, their return to paying dividends, and their good prospects even beyond the current recovery phase. There are catalysts for a broader recognition of these qualities, with global capital re-embracing UK assets, with cyclicality now desired rather than shunned, and with a more nuanced inflationary outlook. While acknowledging the strong gains of the past eight months, the Managers believe that the continued use of tactical gearing is appropriate and remain optimistic about ASCoT's prospective investment returns.

Aberforth Partners LLP
Managers

27 July 2021

Investment Portfolio

Fifty Largest Investments as at 30 June 2021

No.	Company	Valuation £'000	% of Total	Business Activity
1	Reach	68,426	4.6	UK newspaper publisher
2	Redde Northgate	43,394	2.9	Van rental
3	Morgan Advanced Materials	41,339	2.8	Manufacture of carbon & ceramic materials
4	Wincanton	41,161	2.7	Logistics
5	Vitec Group	41,052	2.7	Photographic & broadcast accessories
6	TI Fluid Systems	39,561	2.6	Automotive parts manufacturer
7	SIG	38,019	2.5	Specialist building products distributor
8	Robert Walters	37,870	2.5	Recruitment
9	Brewin Dolphin Holdings	36,708	2.4	Private client fund manager
10	Rathbone Brothers	35,547	2.4	Private client fund manager
	Top Ten Investments	**423,077**	**28.1**	
11	FirstGroup	35,400	2.4	Bus & rail operator
12	International Personal Finance	33,420	2.2	Home credit provider
13	Just Group	32,770	2.2	Individually underwritten annuities
14	Vesuvius	31,738	2.1	Metal flow engineering
15	Senior	31,712	2.1	Aerospace & automotive engineering
16	Eurocell	30,712	2.0	Manufacture of UPVC building products
17	Crest Nicholson	30,469	2.0	Housebuilding
18	Provident Financial	28,940	2.0	Personal credit provider
19	Bakkavor Group	28,546	1.9	Food manufacturer
20	De La Rue	28,514	1.9	Bank note printer
	Top Twenty Investments	**735,298**	**48.9**	
21	TT Electronics	28,505	1.9	Sensors & other electronic components
22	Medica Group	27,390	1.8	Teleradiology services provider
23	DFS Furniture	27,149	1.8	Furniture retailer
24	Rank Group	26,873	1.8	Multi-channel gaming operator
25	EnQuest	25,719	1.7	Oil & gas exploration and production
26	Keller	24,635	1.6	Ground engineering services
27	RPS Group	24,583	1.6	Energy & environmental consulting
28	CMC Markets	23,722	1.6	Financial derivatives dealer
29	Wilmington Group	23,215	1.5	Business publishing & training
30	McKay Securities	23,197	1.5	Property - London & South East offices
	Top Thirty Investments	**990,286**	**65.7**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2021

No.	Company	Valuation £'000	% of Total	Business Activity
31	Micro Focus	23,101	1.5	Legacy software assets
32	C&C Group	22,937	1.5	Brewer and drinks distributor
33	Centamin	20,671	1.4	Gold miner
34	Charles Stanley Group	20,525	1.4	Private client fund manager
35	Headlam Group	20,375	1.4	Distributor of floor coverings
36	Anglo Pacific Group	19,967	1.4	Natural resources royalties
37	RM	19,280	1.3	IT services for schools
38	Lookers	17,969	1.2	Motor vehicle retailer
39	PageGroup	17,559	1.2	Recruitment
40	Castings	17,517	1.2	Engineering - automotive castings
	Top Forty Investments	**1,190,187**	**79.2**	
41	Kenmare Resources	17,147	1.1	Miner of titanium minerals
42	Mitchells & Butlers	16,793	1.1	Operator of restaurants, pubs & bars
43	Stagecoach Group	16,402	1.1	Bus & rail operator
44	Hostelworld Group	15,678	1.0	Hostel booking platform
45	Forterra	15,174	1.0	Manufacture of bricks
46	Zegona Communications	15,152	1.0	Telecommunications
47	Card Factory	14,909	1.0	Retailing - greetings cards
48	Conduit Holdings	14,148	0.9	Bermuda based (re)insurer
49	Capital	13,898	0.9	Rental of drilling equipment
50	City of London Investment Group	13,817	0.9	Asset manager
	Top Fifty Investments	**1,343,305**	**89.2**	
	Other Investments (28)	236,136	15.9	
	Total Investments	**1,579,441**	**105.1**	
	Net Liabilities	(77,150)	(5.1)	
	Total Net Assets	**1,502,291**	**100.0**	

Long Term Investment Record

Historical Total Returns[5]

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30 June 2021	76.3	49.8	70.8
1 year to 30 June 2020	-24.9	-15.0	-21.7
1 year to 30 June 2019	-10.7	-5.4	-11.1
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

Periods to 30 June 2021	Annualised Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	15.0	12.8	15.6	32.4	27.3	33.7
3 years	5.7	6.4	5.9	18.2	20.5	18.8
4 years	6.8	6.7	8.3	30.0	29.7	37.5
5 years	12.0	10.9	14.2	76.4	67.4	94.5
6 years	6.9	7.7	7.3	49.6	56.4	52.3
7 years	7.8	8.1	8.5	69.6	72.6	77.6
8 years	10.6	9.6	11.2	123.6	107.6	134.2
9 years	13.2	11.8	14.5	204.7	173.7	238.6
10 years	10.8	10.1	11.5	178.1	162.5	196.1
15 years	8.8	9.2	9.4	255.0	272.7	283.4
30.6 years from inception[4]	12.9	10.7	12.7	4,017.3	2,148.8	3,727.8

1 Represents Net Asset Value return 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 return with dividends reinvested.

4 Inception date of the Company was 10 December 1990.

5 Alternative Performance Measures (refer to the glossary in the 2020 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 and emerging 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; is not 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, market risk, 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 2020 Annual Report. These principal risks and uncertainties continue to apply as disclosed in the 2020 Annual Report. The impact of the Covid-19 pandemic is addressed in the Managers' Report. The Covid-19 pandemic has also affected the firms providing outsourced services to the Company and they continue to deploy alternative operational practices, including staff working remotely, to ensure continued business service.

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. In assessing going concern the Board considered the impact of Covid-19. 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 Financial Reporting Standard 104 "Interim Financial Reporting".

(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
Richard Davidson
Chairman

27 July 2021

Income Statement

(unaudited)

For the six months ended 30 June 2021

	Six months ended 30 June 2021 Revenue £'000	Capital £'000	Total £'000
Net realised gains/(losses) on sales	–	23,426	23,426
Movement in fair value	–	344,212	344,212
Net gains/(losses) on investments	–	367,638	367,638
Investment income	17,959	–	17,959
Investment management fee (Note 2)	(1,720)	(2,867)	(4,587)
Transaction costs	–	(1,614)	(1,614)
Other expenses	(385)	–	(385)
Net return before finance costs and tax	15,854	363,157	379,011
Finance costs	(175)	(293)	(468)
Return on ordinary activities before tax	15,679	362,864	378,543
Tax on ordinary activities	–	–	–
Return attributable to equity shareholders	15,679	362,864	378,543
Returns per Ordinary Share (Note 4)	17.69p	409.39p	427.08p

Dividends

On 27 July 2021, the Board declared an interim dividend for the year ending 31 December 2021 of 10.95p per Ordinary Share (2020 – 10.40p) which will be paid on 27 August 2021.

Income Statement

Six months ended 30 June 2020 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2020 Revenue £'000	Capital £'000	Total £'000
–	(38,843)	(38,843)	–	(25,932)	(25,932)
–	(457,792)	(457,792)	–	(197,347)	(197,347)
–	(496,635)	(496,635)	–	(223,279)	(223,279)
6,069	–	6,069	15,656	–	15,656
(1,497)	(2,494)	(3,991)	(2,717)	(4,529)	(7,246)
–	(1,582)	(1,582)	–	(2,747)	(2,747)
(372)	–	(372)	(731)	–	(731)
4,200	(500,711)	(496,511)	12,208	(230,555)	(218,347)
(146)	(243)	(389)	(301)	(502)	(803)
4,054	(500,954)	(496,900)	11,907	(231,057)	(219,150)
–	–	–	(48)	–	(48)
4,054	(500,954)	(496,900)	11,859	(231,057)	(219,198)
4.53p	(559.52)p	(554.99)p	13.28p	(258.78)p	(245.50)p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2021

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2020	**888**	**100**	**96,663**	**979,563**	**70,716**	**1,147,930**
Return on ordinary activities after tax	–	–	–	362,864	15,679	378,543
Equity dividends paid	–	–	–	–	(20,318)	(20,318)
Purchase of Ordinary Shares	(3)	3	(3,864)	–	–	(3,864)
Balance as at 30 June 2021	**885**	**103**	**92,799**	**1,342,427**	**66,077**	**1,502,291**

For the year ended 31 December 2020

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2019	895	93	102,753	1,210,620	91,439	1,405,800
Return on ordinary activities after tax	–	–	–	(231,057)	11,859	(219,198)
Equity dividends paid	–	–	–	–	(32,582)	(32,582)
Purchase of Ordinary Shares	(7)	7	(6,090)	–	–	(6,090)
Balance as at 31 December 2020	888	100	96,663	979,563	70,716	1,147,930

For the six months ended 30 June 2020

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2019	895	93	102,753	1,210,620	91,439	1,405,800
Return on ordinary activities after tax	–	–	–	(500,954)	4,054	(496,900)
Equity dividends paid	–	–	–	–	(23,278)	(23,278)
Purchase of Ordinary Shares	–	–	–	–	–	–
Balance as at 30 June 2020	895	93	102,753	709,666	72,215	885,622

Balance Sheet

(unaudited)

As at 30 June 2021

	30 June 2021 £'000	31 December 2020 £'000	30 June 2020 £'000
Fixed assets: investments at fair value through profit or loss	**1,579,441**	1,218,073	907,342
Current assets			
Amounts due from brokers	**1,896**	–	1,268
Other debtors	**1,755**	968	714
Cash at bank	**5,090**	2,963	34
	8,741	3,931	2,016
Creditors (amounts falling due within one year)			
Bank overdraft	**–**	–	(3,140)
Amounts due to brokers	**(2,880)**	(1,111)	(638)
Other creditors	**(136)**	(120)	(145)
	(3,016)	(1,231)	(3,923)
Net current assets/(liabilities)	**5,725**	2,700	(1,907)
Total assets less current liabilities	**1,585,166**	1,220,773	905,435
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(82,875)**	(72,843)	(19,813)
TOTAL NET ASSETS	**1,502,291**	1,147,930	885,622
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	**885**	888	895
Reserves:			
Capital redemption reserve	**103**	100	93
Special reserve	**92,799**	96,663	102,753
Capital reserve	**1,342,427**	979,563	709,666
Revenue reserve	**66,077**	70,716	72,215
TOTAL SHAREHOLDERS' FUNDS	**1,502,291**	1,147,930	885,622
Net asset value per share (Note 6)	**1,696.49p**	1,292.38p	989.16p
Share price	**1,530.00p**	1,248.00p	924.00p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2021

	Six months ended 30 June 2021 £'000	Six months ended 30 June 2020 £'000	Year ended 31 December 2020 £'000
Net cash inflow from operating activities	**12,201**	3,785	8,568
Investing activities			
Purchases of investments	**(219,298)**	(174,777)	(341,319)
Sales of investments	**223,827**	185,266	315,913
Cash inflow/(outflow) from investing activities	**4,529**	10,489	(25,406)
Financing activities			
Purchase of Ordinary Shares	**(3,864)**	–	(6,090)
Equity dividends paid	**(20,318)**	(23,278)	(32,582)
Interest and fees paid	**(421)**	(539)	(964)
Net drawdown of bank debt facilities (before costs)	**10,000**	6,250	59,250
Cash (outflow)/inflow from financing activities	**(14,603)**	(17,567)	19,614
Change in cash during the period	**2,127**	(3,293)	2,776
Cash at the start of the period	**2,963**	187	187
Cash at the end of the period	**5,090**	(3,106)	2,963

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 April 2021. 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 2020 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 2021 £'000	Six months ended 30 June 2020 £'000	Year ended 31 December 2020 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 22.00p for the year ended 31 December 2019	**–**	19,697	19,697
Special dividend of 4.00p for the year ended 31 December 2019	**–**	3,581	3,581
Interim dividend of 10.40p for the year ended 31 December 2020	**–**	–	9,304
Final dividend of 22.90p for the year ended 31 December 2020	**20,318**	–	–
	20,318	23,278	32,582

The interim dividend for the year ending 31 December 2021 of 10.95p (2020 – 10.40p) will be paid on 27 August 2021 to shareholders on the register on 6 August 2021. The ex dividend date is 5 August 2021. 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 2021	30 June 2020	31 December 2020
Returns attributable to Ordinary Shareholders	£378,543,000	£(496,900,000)	£(219,198,000)
Weighted average number of shares in issue during the period	88,634,326	89,533,066	89,285,989
Return per Ordinary Share	427.08p	(554.99)p	(245.50)p

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 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,579,441**	**–**	**–**	**1,579,441**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,579,441**	**–**	**–**	**1,579,441**

As at 31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,214,140	–	3,933	1,218,073
Unlisted equities	–	–	–	–
Total financial asset investments	1,214,140	–	3,933	1,218,073

As at 30 June 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	907,342	–	–	907,342
Unlisted equities	–	–	–	–
Total financial asset investments	907,342	–	–	907,342

As at 31 December 2020, one investment was valued at its suspension price and classified as Level 3. Its shares were relisted on 29 January 2021 and it was transferred back to Level 1.

Notes to the Financial Statements

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 2021 £'000	31 December 2020 £'000	30 June 2020 £'000
Net assets attributable	1,502,291	1,147,930	885,622
Ordinary Shares in issue at end of period	88,553,066	88,823,066	89,533,066
Net asset value per Ordinary Share	1,696.49p	1,292.38p	989.16p

7. Share Capital

During the period, the Company bought back and cancelled 270,000 shares (2020: nil) at a cost of £3,864,000. No shares have been bought back for cancellation between 1 July 2021 and 27 July 2021.

8. Related party transactions

There were no matters during the six months ended 30 June 2021 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 2020 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 2021 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.

Notes

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Paula Hay-Plumb
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