Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2015

Contents

Strategic Report

The Board is pleased to present the Strategic Report which incorporates the Chairman's and Managers' Statements.

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) (NSCI (XIC) or benchmark) over the long term.

The Company has appointed Aberforth Partners LLP as the investment managers. Further information can be found on page 19.

Financial Highlights

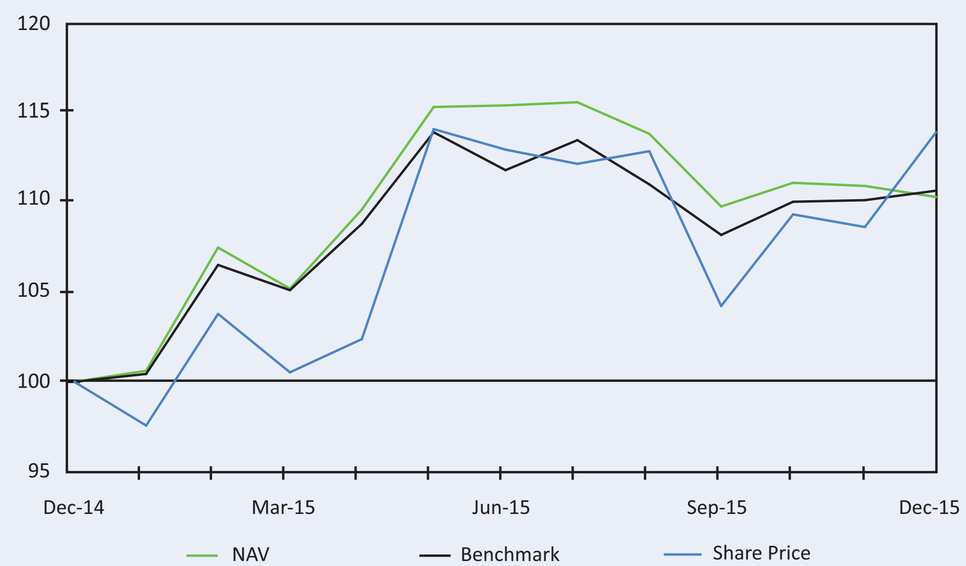
Year to 31 December 2015

Total Return Performance	%
Net Asset Value per Ordinary Share	**10.2**
Numis Smaller Companies Index (excl. Investment Companies)	**10.6**
Ordinary Share Price	**13.9**

	31 December 2015	31 December 2014	Change
Shareholders' Funds	**£1,191.9m**	£1,107.3m	7.6%
Market Capitalisation	**£1,133.6m**	£1,022.1m	10.9%
Actual Gearing employed	**0.3%**	2.8%	N/A
Ordinary Share net asset value	**1,254.30p**	1,161.41p	8.0%
Ordinary Share price	**1,193.00p**	1,072.00p	11.3%
Ordinary Share discount	**4.9%**	7.7%	N/A
Revenue per Ordinary Share	**35.03p**	27.24p	28.6%
Dividends per Ordinary Share	**28.75p**	24.75p	16.2%
Ongoing Charges	**0.79%**	0.82%	N/A
Portfolio Turnover	**37.0%**	35.9%	N/A

One Year Performance

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2014)



Chairman's Statement

Review of 2015 performance

Small UK quoted companies performed well in 2015, more so when compared with the returns of larger companies. The FTSE 100 Index gave a total return of -1.3%, while the FTSE All-Share Index, which is heavily weighted towards large companies, delivered a return of +1.0%. By comparison, the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)), ASCoT's benchmark, produced a return of +10.6%. Over the same period, the Company's net asset value total return was +10.2%, while the share price total return was +13.9%. The share price total return out-performance benefited from a narrowing in the discount during the year, which was also seen by a number of other investment trusts in the sector.

ASCoT's modest under-performance against the NSCI (XIC) came in a year that proved to be one of the most challenging for value investors in the Company's twenty five year history. Importantly, the Board is confident that the year's outcome did not reflect any dilution of the Managers' dedication to their value investment principles. The Managers' Report expands on the factors that affected performance in 2015.

Dividends

The Company continues to benefit from the positive dividend environment within the UK small company sector. In this context, the Board is pleased to propose a final ordinary dividend of 17.85p. This results in total ordinary dividends for the year of 26.0p, which represents an increase of +5.1% on 2014.

In 2015, the revenue account benefited from the receipt of seven special dividends paid by investee companies. This embarrassment of riches has led the Board to propose the payment of a special dividend of 2.75p per share in addition to the final ordinary dividend. This will ensure that the all-important retention test is passed and allow the Company to continue to operate as an investment trust in the eyes of HMRC.

The Board remains committed to a progressive dividend policy. The Company's revenue reserves, after adjusting for payment of both the final ordinary and special dividends, amount to 45.1p per share (up from 38.6p as at 31 December 2014) and provide a degree of flexibility for the future. To be clear, I would highlight that the base level for the Company's progressive dividend policy in 2016 is 26.0p, i.e. excluding the special dividend.

Both dividends are subject to Shareholder approval at the 2016 Annual General Meeting and, if approved, will be paid on 4 March 2016 to Shareholders on the register at the close of business on 12 February 2016. Their ex dividend date is 11 February 2016. ASCoT operates a Dividend Reinvestment Plan. Details of the plan, including the Form of Election, are available from Capita Registrars. Contact details can be found on the inside back cover.

Gearing

Throughout its life it has been the Company's policy to use gearing in a tactical manner. The Royal Bank of Scotland facility is due to expire on 15 June 2017. The facility provides the Managers with flexibility in accessing liquidity for investment purposes, as well as the ability to fund share buy-ins without disturbing the underlying portfolio. At the year end, gearing stood at 0.3% of Shareholders' funds. During the year, the level of gearing ranged from nil to 4.8% with an average of 2.1%.

Share buy-in

At the Annual General Meeting in February 2015, the authority to buy in up to 14.99% of the Company's Ordinary Shares was approved. During the year, 321,000 Ordinary Shares (0.3% of issued share capital) were bought in at a total cost of £3.7 million. Those Shares have been cancelled rather than held in Treasury. Once again, the Board will be seeking to renew the buy-in authority at the Annual General Meeting on 1 March 2016.

Costs

Costs are also a significant influence on net returns. During the year the Board agreed with the Managers a simplified and reduced fee structure for the Company. The Board continues to monitor how the Company compares against its peers in fee terms but is always cognisant that delivering outperformance is of most importance. The fee adjustment helps to offset the ever increasing burden of regulatory costs.

The Managers' Report comments on transaction costs incurred during the year. Again, the Board and the Managers discuss the extent of these costs regularly. We expect and welcome an industry trend to increased transparency of transaction costs in coming years.

Chairman's Statement

Conclusion

ASCoT celebrated its quarter century in December 2015. Since the Company's formation in 1990, the NSCI (XIC) has generated a total return of +11.2% per annum. By comparison, the Company's net asset value total return has been +13.9% per annum. Outperformance of this magnitude over such a long period is beyond the realm of chance and credit must be paid to the Managers' consistent and diligent application of investment style, coupled with sound research. During the past 25 years, the Company has experienced periods when small UK quoted companies have been in and out of fashion, and, in a similar vein, when the value investing style has waxed and waned. Consequently not every investor has the benefit of the 25 year record and some will have more difficult performance histories depending on the timing of their purchases. This will always be the case, no matter how successful the Manager or diligent the Board, but it serves to emphasise that investment in ASCoT should be viewed as a medium to long term opportunity for exposure to a sector and style that tend to reward the patient investor.

In the years since the global financial crisis, high absolute returns from small UK quoted companies have come against the background of leadership by the growth style. This has also been a period of extraordinary monetary policy. It is difficult to calibrate the precise effects of zero interest rates and quantitative easing on investment styles, but a relationship beyond pure coincidence seems plausible. With the Federal Reserve increasing interest rates in December 2015, we are at least reminded that nothing remains constant in financial markets: interest rates do not just fall and strong style leadership does not last forever.

As I alluded to earlier, 2015 has been an extremely challenging year for the value investor. None of us know what 2016 will deliver. The Board remains firmly of the view that the Company is extremely well served by the Managers. The value investment style has been applied consistently through cycles while the focus and evolution of the investment team continue to serve shareholders well. The experienced team, and its financial commitment to the Company, underpins a business structure that in the Board's view has been of great importance in delivering an excellent long term performance record.

Finally, the Board very much welcomes the views of Shareholders and we are always available to talk to Shareholders directly. My email address is noted below.

Paul Trickett
Chairman
27 January 2016
paul.trickett@aberforth.co.uk

Investment Policy and Strategy

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) (NSCI (XIC)) over the long term.

Investment Policy

The Company aims to achieve its objective by investing in small UK quoted companies. These are companies with a market capitalisation, at time of purchase, equal to or lower than that of the largest company in the bottom 10% of the main UK equity market or companies in the NSCI (XIC). At 1 January 2016 (the date of the last annual index rebalancing), the index included 349 companies, with an aggregate market capitalisation of £150 billion, and its upper market capitalisation limit was £1.3 billion, although this limit will change owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities will become candidates for sale.

Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies. The Company may, at time of purchase, invest up to 15% of its assets in any one security. However, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis.

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except either where an investee company moves from the "Main Market" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Main Market" (so as to enable investment before a full listing is obtained). The Company does not invest in any unquoted companies or in any securities issued by investment trusts or investment companies, with the exception of real estate investment trusts that are eligible for inclusion in the NSCI (XIC).

The Managers aim to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity. The Company may employ gearing. The Board, in conjunction with the Managers, is responsible for determining the parameters for gearing. When considered appropriate, gearing is used tactically in order to enhance returns. The Company currently has a £125m three year bank facility in place and the level of gearing has, during 2015, ranged from nil to 4.8%. Further details can be found in note 12 to the Financial Statements.

The Board believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

Investment Strategy

The Managers adhere to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the Company's holdings will usually be on more attractive valuations than the average for the NSCI (XIC). While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Managers select companies for the portfolio on the basis of fundamental or "bottom-up" analysis. Analysis involves scrutiny of businesses' financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold when their valuations reach targets determined by the Managers.

In order to improve the odds of achieving the investment objective, the Managers believe that the portfolio must be adequately differentiated from the benchmark index. Therefore, within the diversification parameters described in Investment Policy, the Managers regularly review the level of differentiation, with the aim of maximising the active weight of each holding within the portfolio.

Principal Risks

The Board carefully considers the principal risks faced by the Company and seeks to manage these risks through continual review, evaluation and taking action as necessary.

Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies. In addition, the Company has a simple capital structure and outsources all the main operational activities to recognised, well-established firms.

The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below. Further information regarding the review process can be found in the Corporate Governance and Audit Committee Reports.

(i) Investment policy/performance risk – the performance of the investment portfolio will typically differ from the performance of the benchmark and will be influenced by market related risks including market price and liquidity (refer to Note 18 for further details). *The Board's aim is to achieve the investment objective over the long term by ensuring the investment portfolio is managed appropriately. The Board has outsourced portfolio management to experienced managers with a clearly defined investment philosophy and investment process. The Board receives regular and detailed reports on investment performance including detailed portfolio analysis, risk profile and attribution analysis. Senior representatives of Aberforth Partners attend each Board meeting. Peer group performance is also regularly monitored by the Board.*

(ii) Share price discount – investment trust shares tend to trade at discounts to their underlying net asset values. *The Board and the Managers monitor the discount on a daily basis. The Board intends to continue to use the share buy-in facility to seek to sustain as low a discount as seems possible.*

(iii) Gearing risk – in rising markets, gearing will enhance returns; however, in falling markets the gearing effect will adversely affect returns to Shareholders. *The Board and the Managers consider the gearing strategy and associated risk on a regular basis.*

(iv) Reputational risk – *the Board and the Managers monitor external factors outwith the Company's control affecting the reputation of the Company and/or the key service providers and take action if appropriate. The Secretaries monitor regulatory developments and provide regular updates to the Board.*

(v) Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company losing investment trust status and, as a consequence, any capital gains would then be subject to capital gains tax. *The Board receives quarterly compliance reports from the Secretaries to evidence compliance with rules and regulations, together with information on future developments*.

Viability Statement

The Directors have assessed the viability of the Company over the five years to December 2020, taking account of the Company's position, its investment strategy, and the potential impact of the relevant principal risks detailed above. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020, subject to the Company's Shareholders voting in favour of the continuation of the Company in 2017.

In making this assessment, the Directors took comfort from the results of a series of stress tests that considered the impact of a number of severe market downturn scenarios on the Company's financial position and, in particular, its ability to settle projected liabilities of the Company as they fall due. The Directors determined that a five year period to December 2020 is an appropriate period for which to provide this statement given the Company's long term investment objective, the simplicity of the business model, the resilience demonstrated by the stress testing and the relatively low working capital requirements.

Key Performance Indicators

The Board assesses the Company's performance in meeting its objective against key performance indicators: net asset value total return; share price total return; relative performance; and share price discount to net asset value. Information on the Company's performance is given in the Chairman's Statement and Managers' Report and a record of these measures is shown below. In addition to the above, the Board considers the share price discount against its investment trust peer group each day.

Historic Total Returns

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2015	**10.2**	**10.6**	**13.9**
1 year to 31 December 2014	-0.7	-1.9	0.1
1 year to 31 December 2013	52.4	36.9	62.0
1 year to 31 December 2012	31.9	29.9	43.9
1 year to 31 December 2011	-13.5	-9.1	-18.5
1 year to 31 December 2010	26.6	28.5	22.8
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0

Periods to 31 December 2015	Annualised Returns (%) NAV	Index	Share Price	Cumulative Returns (%) NAV	Index	Share Price
2 years from 31 December 2013	4.6	4.2	6.8	9.5	8.6	14.0
3 years from 31 December 2012	18.6	14.1	22.7	66.8	48.6	84.6
4 years from 31 December 2011	21.8	17.9	27.7	120.0	93.2	165.6
5 years from 31 December 2010	13.7	11.9	16.7	90.3	75.5	116.6
6 years from 31 December 2009	15.8	14.5	17.7	140.9	125.5	165.9
7 years from 31 December 2008	19.5	20.2	22.9	247.9	262.5	323.5
8 years from 31 December 2007	9.7	10.0	12.7	110.0	114.5	161.1
9 years from 31 December 2006	7.3	7.8	8.9	88.2	96.6	115.9
10 years from 31 December 2005	9.0	9.7	9.5	137.6	151.7	148.3
15 years from 31 December 2000	11.5	9.1	13.1	410.4	270.5	530.9
20 years from 31 December 1995	12.6	10.3	12.7	965.5	615.3	988.8
25.1 years from inception on 10 December 1990	13.9	11.2	13.8	2,529.7	1,322.7	2,434.1

Ten Year Summary

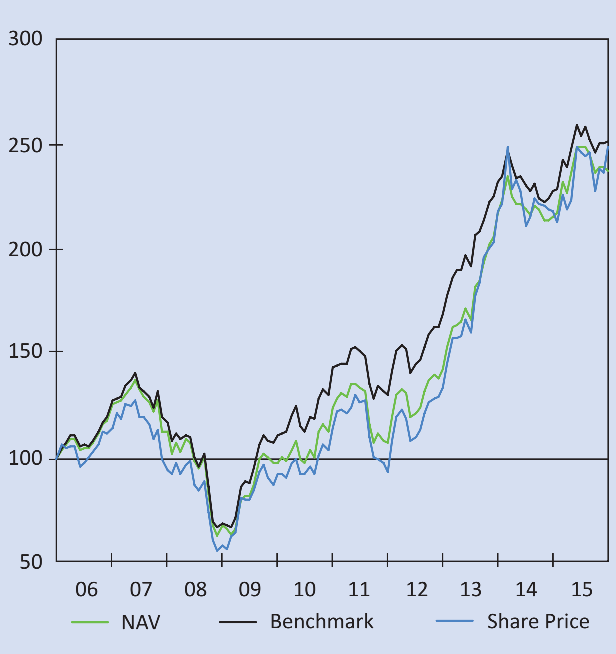
As at 31 December	Net asset Value per Share p	Share Price p	Discount %	Revenue per Ordinary Share p	Dividends per Ordinary Share net p	Ongoing Charges %	Gearing %
2015	**1,254.3**	**1,193.00**	**4.9**	**35.03**	**28.75**	**0.79**	**0.3**
2014	1,161.4	1,072.00	7.7	27.24	24.75	0.82	2.8
2013	1,193.2	1,095.00	6.7	27.37	23.50	0.79	2.6
2012	802.8	695.50	13.4	26.07	22.25	0.81	5.9
2011	627.3	501.00	20.1	24.13	20.75	0.88	11.1
2010	743.8	632.50	15.0	18.11	19.00	0.85	7.3
2009	605.9	534.00	11.9	17.35	19.00	0.85	7.7
2008	437.7	351.25	19.7	22.75	19.00	0.94	9.5
2007	743.9	587.00	21.1	18.38	15.20	0.86	–
2006	843.4	723.00	14.3	16.40	13.40	0.97	–
2005	679.3	640.00	5.8	14.50	11.85	0.99	–

Key Performance Indicators

Ten Year Investment Summary

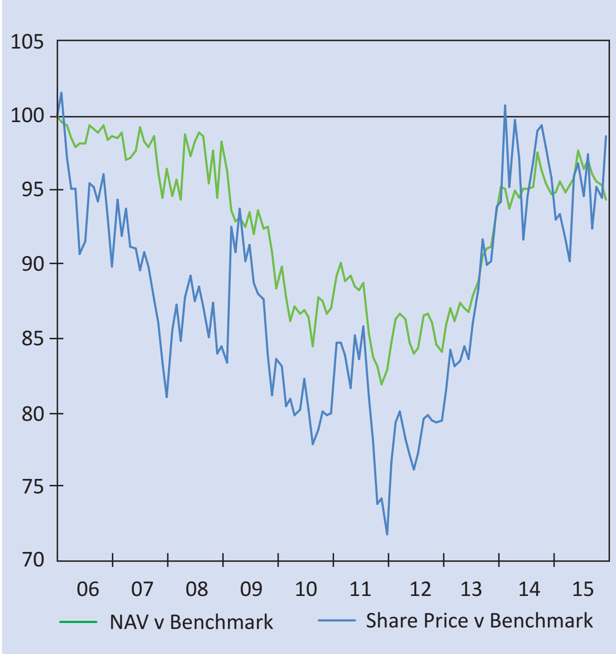
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2005)



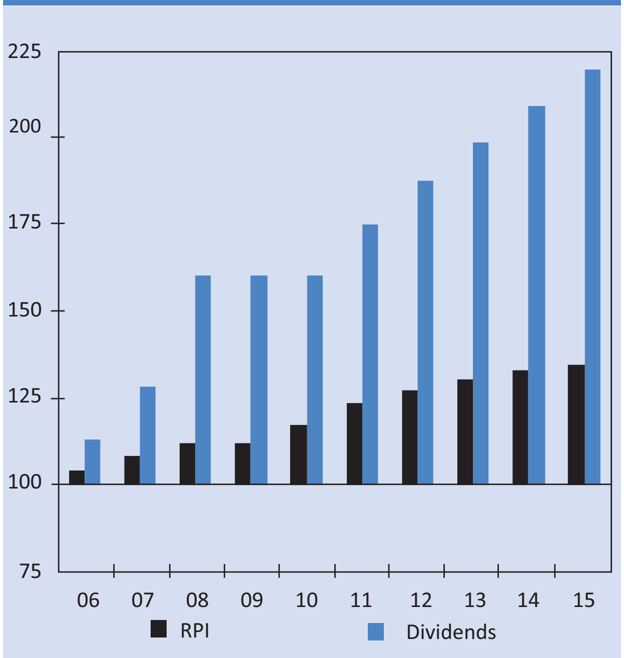
Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2005)



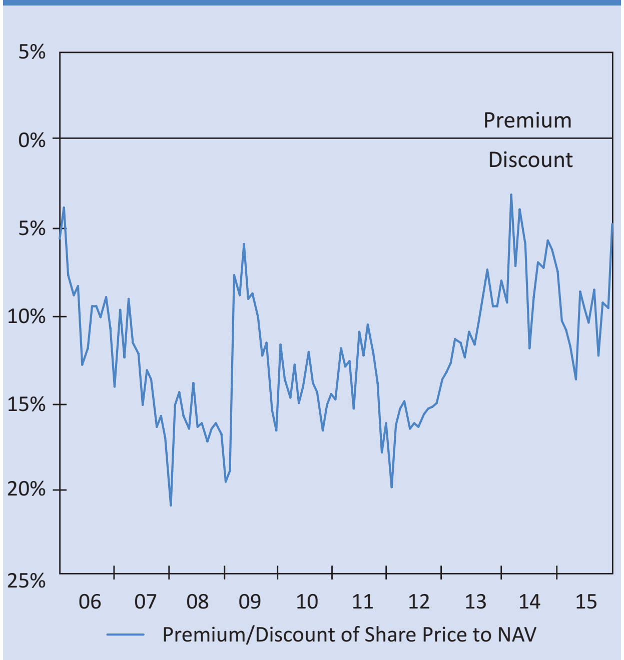
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 2005)



Premium/Discount

(being the difference between Share Price and NAV)



Managers' Report

Introduction

Benefiting from a resilient domestic economy and its low exposure to the struggling resources industries, the Numis Smaller Companies Index (excluding investment companies) performed well in 2015, securing a total return of 10.6%. This was well ahead of the FTSE All-Share's 1.0% and, indeed, compared well with the results for many major stockmarkets, particularly when assessed in sterling. ASCoT's NAV rose by 10.2% in total return terms. While acceptable in the broader context of 2015, this outcome is below that of the benchmark. Reasons for this are set out in the Performance section of this report.

Returning, for the time being, to the broader investment environment, risk assets tended to struggle in 2015, especially in the second half. Uncertainty continued as to the strength of recovery in the Eurozone, notwithstanding the introduction of quantitative easing long promised by Mario Draghi. Meanwhile, the pace of growth in the US ebbed even as speculation about the first rise in interest rates in the present cycle mounted. Adding to these undercurrents came the Autumn's tide of concern about China and the emerging markets in general. Uncertainty rose as to the rate of deceleration in the Chinese economy following a loosening of its currency peg with the strong dollar, which fuelled recurrent fears about years of investment financed by unsustainable levels of debt. The slowdown in China's rate of growth added to pressure on the resources industry, as diminishing demand met still rising supply, a legacy of the boom years. In turn, plummeting commodity prices and a stronger dollar intensified the woes of emerging markets, several of which have relied on dollar denominated debt to fund their growth.

The UK has proved a haven of comparative tranquillity: domestic demand has been boosted by wages rising above the rate of inflation and has offset austerity policies, which have in any case been watered down. However, the FTSE All-Share, which is dominated by large companies, has been weighed down by its significant exposure to the resources industries. This factor helps explain the out-performance of smaller companies in 2015: the NSCI (XIC) has a relatively low exposure to resources companies and a much greater exposure to sectors, such as retailing, that address the domestic economy. That said, overseas-facing companies within the NSCI (XIC) are showing signs of stress as patchy demand growth in other economies combines with the lagged effects of sterling's revaluation over the past four years.

Against this backdrop of modest economic growth and mounting pessimism, government bond yields ended 2015 little changed from the levels at which they started the year. These are very low in the long term historical context and are also influenced by the prevailing monetary regime of zero interest rate policy and quantitative easing. The impact of bond yields on a portfolio of small UK quoted companies constructed in accordance with a value investment discipline is twofold.

- First, as already implied, bond yields are a gauge of underlying economic activity: yields tend to rise to reflect and compete with the returns available from a stronger economy and vice versa. In an environment of low growth across the economy, secular growth companies stand out and can be rewarded by the stockmarket with higher than normal valuations. A rising tide of improving prospects for the general economy should erode that growth premium.
- Second, value stocks may be considered "short duration" equities, which means that more of their worth is determined by near term cash flows from the underlying businesses. In contrast, growth stocks tend to be "long duration" equities, with a greater portion of their value derived from cash flows that are forecast to grow often over many years into the future. As such, the valuation of a growth company is more sensitive to the rate at which the cash flows are discounted to arrive at the business's present value. To this extent, the present climate of very low interest rates and bond yields is likely to result in valuations for growth companies that are even higher than normal.

The theory has translated into practice since the global financial crisis: the value investment style has fared well in years such as 2013 when bond yields rose, but has faced a challenge over the period as a whole as yields have declined. This report's initial focus on the big picture should not be mistaken for a change in the Managers' investment approach: the portfolio remains a collection of individual businesses selected for their attractive valuations and prospects. However, it is clear that the performance of the portfolio, whether Aberforth likes it or not, is influenced by factors beyond its control. Some of this is by design: ASCoT ought to benefit from the value premium, which is the out-performance that value stocks have enjoyed over growth stocks over the long term both in the NSCI (XIC) and in equity markets around the world.

Managers' Report

Investment performance

To recap, ASCoT's NAV total return in 2015 was 10.2%, which compares with 10.6% from the NSCI (XIC). This section of the report analyses some of the factors behind the relative performance.

For the 12 months ended 31 December 2015	Basis points
Stock selection	(16)
Sector selection	27
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 35 basis points)	**11**
Movement in mid to bid price spread	8
Cash/gearing	24
Purchase of Ordinary Shares	4
Management fee	(79)
Other expenses	(7)
Total attribution based on bid prices	**(39)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 10.22%; Benchmark Index = 10.61%; difference is -0.39% being -39 basis points).

Style & size

With government bond yields remaining at very low levels over the year, the value investment style under-performed in 2015. An additional handicap came from the rebalancing of the NSCI (XIC) on 1 January 2015: this saw the admission of several resources companies, whose share prices had fallen steeply in 2014. According to the price-to-book methodology employed by the London Business School, which maintains the NSCI (XIC), these were classified as value companies. Their continued struggles in 2015 therefore represented a headwind to the value style. As explained in the Sectors paragraph below, the Managers are not slaves to third party definitions of what makes a value investment and choose to avoid many of these troubled resources businesses.

The Managers' consistent application of their value style has led to a significantly larger exposure than that of the NSCI (XIC) to the smaller constituents of the index. One way to illustrate this is to focus on the NSCI (XIC)'s overlap with the FTSE 250. This overlap accounts for 63% of the NSCI (XIC) but for just 40% of the portfolio. This under-weight position in "larger small" companies and the accompanying over-weight position in "smaller small" companies reflects the strong performance of mid caps over the past 15 years. Consequently, the more attractive valuations are now on offer down the scale of market capitalisations, often irrespective of an individual company's prospects. In part, this state of affairs is a result of the global financial crisis: fears of illiquidity have remained exaggerated and deterred many market participants from venturing below the FTSE 250. With little to choose between the returns from the FTSE 250 and the FTSE SmallCap in 2015, size was not a significant influence on the ASCoT's relative performance.

Sectors

The resources sectors represent a conundrum for the value investor. Their constituents often look very cheap on metrics such as price-to-book, but their prospects are clouded by macro economic and political influences on underlying commodity prices. The Managers have differentiated between the oil companies and the miners, adopting a higher weight than the index in the former – for the first time in a decade – and remaining under-weight in the latter. An important means of differentiation is the balance sheet: the oil companies in the NSCI (XIC) tend to have stronger balance sheets, with net cash, modest debt or long term borrowing arrangements. In contrast, the miners' balance sheets tend to be stretched. As a consequence, the miners in many cases require higher commodity prices sooner rather than later in order to survive, whereas it is possible to adopt a longer term investment horizon with the oil companies, most of which remain cash flow positive with the oil price at today's depressed levels. On a one year view, the decision to add to the portfolio's position in oil was unhelpful. However, this was out-weighed by the benefit of avoiding the worst of the miners.

Elsewhere, it has been challenging to find value in the healthcare sectors. Healthcare companies offer the benefits of secular growth dynamics and are able to stand apart from concerns about the economic cycle that afflict the majority of stockmarket sectors. As a consequence, they have attracted large amounts of capital, as resources companies were able to do a decade ago, and their valuations have risen to high levels. Other buoyant areas of the small cap universe in recent years have been those sectors addressing the domestic UK economy. Housebuilders and retailers have tended to perform well and ASCoT has benefited from significant exposure to those industries. However, it would appear that the good news about the UK's recovery is now fully reflected in the valuations of several domestic cyclicals. As a consequence, the portfolio's exposure has fallen as valuation targets have been achieved.

Managers' Report

Corporate activity

M&A staged a substantial recovery in 2015. Bids for 27 members of the NSCI (XIC) were completed in the year, against 12 in 2014 and just 5 in 2013. On top of the completed deals, approaches for another 8 companies were outstanding at the year end. Acquirers were predominantly other corporates rather than private equity and takeover premiums were generally fair. Of the 27 completed deals, ASCoT held 8. The net effect of the takeover premiums collected by ASCoT less those missed was positive, though amounted to less than 100 basis points of relative performance.

The year under review was also noteworthy for the refreshment of the NSCI (XIC): the initial public offerings of 29 companies eligible for inclusion in the index were completed. This compares with 27 in 2014. As at 31 December 2015, ASCoT held four of 2015's IPOs. It would appear that the pipeline of potential future IPOs is full, though its realisation clearly relies on acceptable price expectations on the part of the vendors and on general stockmarket conditions – neither of which is a given.

Income

The dividend performance of small companies in recent years has been very strong. In an investment world starved of income by zero interest rate policies, the dividend characteristics offered by the constituents of the NSCI (XIC) have been increasingly sought after. It is scarcely necessary to look further when attempting to understand the good share price performance of the asset class since the global financial crisis. The same logic applies when assessing the performance of small companies against large. Double digit per annum dividend growth and numerous special dividends from the NSCI (XIC) since 2009 contrast with the fortunes of the FTSE All-Share, which is dominated by large sectors, such as the banks and resources companies, whose dividends have been under considerable pressure.

ASCoT continues to benefit from this favourable backdrop. Its investment income rose by 25% in 2015, boosted by seven special dividends and also by the impact of companies resuming dividend payments after having suspended them during the 2009 recession. Given this performance, the general craving for income and the higher than average yields of the portfolio's investee companies, it would seem likely that ASCoT's income characteristics have been beneficial to both its total return and capital NAV performance in recent years. This would have mitigated to an extent the broader headwinds facing the value style that are associated with low interest rates and bond yields.

It is worth reiterating the caveats about income made in previous reports. First, the double digit growth in small company dividends since 2009 is unsustainable: the long term average is 2.5% per annum adjusted for inflation and there is little reason to believe that the future average should be any higher. Second, the Managers detect an element of faddishness to the rediscovered fondness for dividends: at the risk of too much cynicism, it may be the case that certain dividend decisions are being made with an eye to the shorter term fillip they might afford to a share price rather than to the longer term good of the company. Such situations may only be revealed when the next recession hits. Third, if interest rates and bond yields can begin a journey of normalisation, income becomes less scarce and the income characteristics of small companies become less sought after. This, though, should be a price worth paying by a value investor.

Significant stakes

Throughout ASCoT's 25 years, the Managers have been prepared to take large stakes in investee companies across Aberforth's client base. These stakes can rise as high as around 25% of a company's outstanding share capital. The primary motivation relates to the value investment philosophy: the Managers want valuation to be the main determinant of a company's position in the portfolio. A 25% ownership limit offers flexibility in this regard, though stakes of this size are a relatively small part of the portfolio and are usually amassed slowly, taking advantage of share price weakness.

Clearly, significant stakes can bring additional opportunities and responsibilities. The Managers have an established means of engagement with investee companies that focuses on the role of the chairman, which is the most important position in the UK's corporate governance structure. The Managers may have a view on dividend policy or balance sheet structure, but, with the right person in the chair, they are generally happy to let the board run the company. Engagement is frequently time consuming, but the Managers are well resourced and believe that the investment of time provides a good payback. Significant stakes, with the inevitable mix of successes and failures, have made a net positive contribution to ASCoT's returns over the years.

Turnover

Defined as the lower of purchases and sales divided by average month end net asset value over the past twelve months, turnover was 37% over the twelve months to 31 December 2015, which compares with 36% in 2014. In both years, turnover was boosted by situations in which ASCoT is in effect a forced seller but which represent good outcomes for shareholders. First, companies that have grown too large to remain in the NSCI (XIC) on its annual 1 January rebalancing are sold in an orderly fashion. Second, companies subject to takeover bids are sold to the acquirer. Adjusting for these circumstances, ASCoT's underlying turnover over the long term has been 25% and in 2015 was 20%. The underlying turnover figure of 25% implies an average holding period of four years, though the portfolio contains many holdings that have been there for much longer.

The rise in overall turnover had a large influence on the rise in transaction costs from £3,346k in 2014 to £3,890k in 2015. Higher asset values, consistent with the positive return from the NSCI (XIC), also had an important effect. Other factors were less significant; these include the proportion of purchases incurring stamp duty, the mix of dealing venues, the impact of selling companies to bidders in M&A situations, and the significance within purchases of participation in issues of new equity.

The Managers are acutely conscious of transaction costs, not least because they affect the achievability of ASCoT's investment objective – to out-perform the NSCI (XIC) over the long term. The Managers assess these costs, which represent a combination of commissions for execution and stamp duty reserve tax, together with underlying investment opportunities: in keeping with the value investment discipline, holdings are reduced when they no longer offer further upside and the proceeds are recycled into other positions. In the round, this process of recycling should be of benefit to shareholders: this was certainly the case in 2015, when so much of the turnover was a result of M&A and the sales of companies that had performed sufficiently well to be ejected from the NSCI (XIC).

Active share

Active share is a gauge of how different a portfolio is from an index. A higher active share ratio indicates a greater difference and increases the probability that the portfolio's performance will diverge from that of the index. That divergence could be positive or negative. The Managers monitor active share to ensure that ASCoT's portfolio does not inadvertently become too similar to the NSCI (XIC). They target a ratio of at least 70%, though will tolerate a temporarily depressed number. The target is assessed without the benefit of holdings that are not constituents of the index – such holdings flatter active share. At 31 December 2015, the ratio stood at 77%.

Valuations

	31 December 2015		31 December 2014	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**86**	**349**	88	369
Weighted average market capitalisation	**£567m**	**£750m**	£614m	£754m
Price earnings ratio or PE (historic)	**12.5x**	**14.6x**	13.0x	13.2x
Dividend yield (historic)	**3.1%**	**2.7%**	2.5%	2.5%
Dividend cover	**2.6x**	**2.5x**	3.1x	3.0x

The table above contains historic valuation data for ASCoT's portfolio and for the NSCI (XIC). The portfolio's historic PE fell over the course of 2015, while the NSCI (XIC)'s rose. This is consistent with the style dynamics already described: the small cap universe was led higher by the growth stocks, while value stocks performed less well. Meanwhile, the PE of large companies, represented by the FTSE All-Share, rose from 13.8x to 16.6x over the year. As a consequence, small companies ended the year 12% cheaper than large in terms of PE, which compares with a 4% discount twelve months earlier. As recently as September 2012, small companies were 24% more expensive than large on the basis of PEs.

The average portfolio yield rose in 2015, while the dividend cover dropped. An important influence on these movements is the impact of previously nil yielding companies resuming or starting dividends payments. At 2.6x, cover is now back closer to the long term average of 2.5x, having spent the years since the global financial crisis at above 3.0x.

2016 enterprise value / earnings before interest, tax and amortisation			
43 growth companies	244 other companies	Tracked Universe*	ASCoT's portfolio
16.0x	11.1x	11.8x	9.8x

* Companies followed closely by the Managers accounting for 96% by value of the NSCI (XIC).

The table above sets out the forward EV/EBITA ratio for the portfolio, the tracked universe and two subdivisions of the tracked universe, 43 growth companies and the 244 other companies. EV/EBITA is the Managers' favoured valuation metric. It is unaffected by how a company is funded, whether through equity or debt, and it is closer to how a corporate acquirer values a target business. This latter point may explain the important contribution to ASCoT's performance over the years from M&A. Consistent with the Managers' value investment style, the portfolio is valued on a large discount to the tracked universe as a whole. This discount to the growth companies is wider, at 39%. A corollary of growth's leadership in 2015 is that the population of potential investments for ASCoT has increased. It is the value investor's contention that discounts will narrow over time to the benefit of the relative returns of portfolios managed in accordance with the style.

Outlook & conclusion

Although the Managers' day-to-day focus is on individual businesses and their valuations, it is likely that the performance of ASCoT over the coming year will be significantly influenced by developments on a larger scale. If the recent interest rate increase in the US heralds a gradual normalisation of monetary conditions around the world and bond yields are higher in twelve months' time, it is probable that ASCoT will have benefited from tailwinds for the value investment style. If, however, the rate increase proves more than the economy can take and bond yields stay the same or decline, then ASCoT will probably face headwinds similar to those of 2015. The outcome is not one that the Managers are able to call. However, the challenge that the interest rate rise in the US represents to the broader investment world's safe and consensual preference for growth stocks is intriguing.

Closer to home, the outlook for the UK's corporate sector is undeniably cloudy. Demand is challenged by the uncertain pace of growth in much of the world, while costs are, at last, coming under pressure from wages rising above the rate of inflation. Sliding commodity prices – particularly that of oil – offer some mitigation, but a squeeze on margins is plausible. It should not come as a surprise if the profit growth expected by the market for small companies in 2016 – currently around 9% – once again proves too ambitious. In mitigation, balance sheets do not appear stretched across the portfolio and the investment universe in general. Moreover, another year of above average dividend growth from small companies looks likely.

For the Managers, the most encouraging factor is that of valuation. The investment universe continues to offer up numerous attractively valued investment opportunities. Indeed, the consolation of a year in which growth stocks have led the NSCI (XIC) higher is that the valuation gap between growth and value has widened and the number of candidates for inclusion in the portfolio has risen. It is plausible that elements of the undoubted top-down risks are already discounted in valuations of today's portfolio. Accordingly, without becoming hostage to the vagaries of equity returns over one year, the Managers look to the future with confidence and believe that ASCoT can continue to benefit from the careful stock selection and exploitation of the value premium that have characterised the first 25 years of your Company's life.

Aberforth Partners LLP
Managers
27 January 2016

Thirty Largest Investments

As at 31 December 2015

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	e2v technologies	35,713	3.0	Electronic components & subsystems
2	FirstGroup	32,271	2.7	Bus & rail operator
3	Bovis Homes Group	31,982	2.7	Housebuilding
4	Hilton Food Group	29,727	2.5	Food manufacturer
5	Brewin Dolphin Holdings	29,397	2.5	Private client fund manager
6	Vesuvius	29,273	2.5	Metal flow engineering
7	Go-Ahead Group	29,151	2.4	Bus & rail operator
8	Mothercare	28,649	2.4	Retailing - maternity & children's products
9	International Personal Finance	28,245	2.4	Home credit provider
10	Shanks Group	27,453	2.3	Waste services
	Top Ten Investments	**301,861**	**25.4**	
11	Paragon Group	26,556	2.2	Specialist finance provider
12	Trinity Mirror	26,451	2.2	UK newspaper publisher
13	Grainger	26,141	2.2	Property - residential rentals
14	Flybe Group	25,849	2.2	Airline
15	Urban&Civic	25,588	2.1	Property - investment & development
16	Northgate	24,220	2.0	Van rental
17	Hogg Robinson Group	23,767	2.0	Travel & expense management
18	Computacenter	22,393	1.9	IT services
19	Hansteen Holdings	20,831	1.7	Property - industrial
20	RPS Group	20,570	1.7	Energy & environmental consulting
Top Twenty Investments		**544,227**	**45.6**	
21	Morgan Advanced Materials	20,344	1.7	Manufacture of carbon & ceramic materials
22	Wincanton	20,013	1.7	Logistics
23	Connect Group	19,988	1.7	Newspaper distribution
24	Novae Group	19,468	1.6	Lloyd's insurer
25	Vectura Group	19,439	1.6	Inhaled pharmaceuticals - respiratory specialism
26	Robert Walters	19,298	1.6	Recruitment
27	TT Electronics	19,140	1.6	Sensors & other electronic components
28	Ladbrokes	19,024	1.6	Bookmaker & online gaming
29	KCOM Group	18,830	1.6	Telecoms & related services
30	SDL	18,822	1.6	Software - translation & content management
	Top Thirty Investments	**738,593**	**61.9**	
	Other Investments	456,988	38.4	
	Total Investments	**1,195,581**	**100.3**	
	Net Liabilities	(3,702)	(0.3)	
	Total Net Assets	**1,191,879**	**100.0**	

Investment Portfolio

As at 31 December 2015

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Oil & Gas Producers	**30,974**	**2.7**	**3.0**
EnQuest	5,393	0.5	
Hardy Oil & Gas	1,159	0.1	
Nostrum Oil & Gas	12,586	1.1	
Petroceltic International	1,906	0.2	
SOCO International	9,930	0.8	
Oil Equipment, Services & Distribution	**13,904**	**1.2**	**1.0**
Gulf Marine Services	13,904	1.2	
Alternative Energy	**–**	**–**	**0.1**
Chemicals	**7,678**	**0.6**	**1.7**
Carclo	7,678	0.6	
Industrial Metals & Mining	**–**	**–**	**0.8**
International Ferro Metals[1]	–	–	
Mining	**22,459**	**1.8**	**2.9**
Anglo Pacific Group	6,403	0.5	
Centamin	16,056	1.3	
Kenmare Resources Warrants 2019[2]	–	–	
Construction & Materials	**30,967**	**2.6**	**3.6**
Eurocell	9,670	0.8	
Keller	17,018	1.4	
Low & Bonar	4,279	0.4	
Aerospace & Defence	**22,247**	**1.9**	**1.1**
Chemring Group	9,094	0.8	
Senior	13,153	1.1	
General Industrials	**38,106**	**3.2**	**1.0**
Coats Group	8,833	0.7	
Vesuvius	29,273	2.5	
Electronic & Electrical Equipment	**75,197**	**6.3**	**1.8**
e2v technologies	35,713	3.0	
Morgan Advanced Materials	20,344	1.7	
TT Electronics	19,140	1.6	
Industrial Engineering	**50,342**	**4.3**	**2.1**
Bodycote	18,819	1.6	
Castings	13,004	1.1	
Vitec Group	18,519	1.6	
Industrial Transportation	**20,013**	**1.7**	**1.9**
Wincanton	20,013	1.7	
Support Services	**183,820**	**15.4**	**12.1**
Acal	1,289	0.1	
Capital Drilling	1,443	0.1	
Connect Group	19,988	1.7	
De La Rue	17,741	1.5	
Hogg Robinson Group	23,767	2.0	
Management Consulting Group	5,004	0.4	
Northgate	24,220	2.0	
Premier Farnell	9,146	0.8	
Robert Walters	19,298	1.6	
RPS Group	20,570	1.7	
Shanks Group	27,453	2.3	
Speedy Hire	13,901	1.2	
Automobiles & Parts	**–**	**–**	**–**
Beverages	**–**	**–**	**0.6**

Investment Portfolio

As at 31 December 2015

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Food Producers	**31,591**	**2.7**	**2.8**
Hilton Food Group	29,727	2.5	
R.E.A. Holdings	1,864	0.2	
Household Goods & Home Construction	**31,982**	**2.7**	**1.8**
Bovis Homes Group	31,982	2.7	
Leisure Goods	**10,897**	**0.9**	**0.5**
Games Workshop Group	10,897	0.9	
Personal Goods	**–**	**–**	**2.1**
Health Care Equipment & Services	**–**	**–**	**2.8**
Pharmaceuticals & Biotechnology	**19,439**	**1.6**	**2.8**
Vectura Group	19,439	1.6	
Food & Drug Retailers	**8,424**	**0.7**	**1.0**
McColl's Retail Group	8,424	0.7	
General Retailers	**86,628**	**7.4**	**7.7**
N Brown Group	569	0.1	
Carpetright	9,738	0.8	
DFS Furniture	8,967	0.8	
Findel	8,637	0.7	
Halfords Group	1,461	0.1	
Home Retail Group	9,008	0.8	
JD Sports Fashion	1,038	0.1	
Mothercare	28,649	2.4	
Pendragon	18,561	1.6	
Media	**64,975**	**5.4**	**3.8**
Centaur Media	9,936	0.8	
Future	7,053	0.6	
Huntsworth	12,312	1.0	
ITE Group	3,209	0.3	
Trinity Mirror	26,451	2.2	
UTV Media	6,014	0.5	
Travel & Leisure	**127,612**	**10.7**	**8.1**
Air Partner	2,996	0.3	
FirstGroup	32,271	2.7	
Flybe Group	25,849	2.2	
Go-Ahead Group	29,151	2.4	
Ladbrokes	19,024	1.6	
Punch Taverns	7,682	0.6	
Rank Group	4,899	0.4	
Revolution Bars Group	5,740	0.5	
Fixed Line Telecommunications	**18,830**	**1.6**	**1.0**
KCOM Group	18,830	1.6	
Electricity	**–**	**–**	**0.7**
Gas, Water & Multiutilities	**–**	**–**	**–**
Banks	**–**	**–**	**1.6**
Nonlife Insurance	**19,468**	**1.6**	**2.7**
Novae Group	19,468	1.6	
Life Insurance	**8,851**	**0.7**	**1.4**
Hansard Global	8,851	0.7	
Real Estate Investment & Services	**65,138**	**5.4**	**6.3**
Countrywide	13,409	1.1	
Grainger	26,141	2.2	
Urban&Civic	25,588	2.1	

Investment Portfolio

As at 31 December 2015

Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[3]
Real Estate Investment Trusts	**35,813**	**3.0**	**4.8**
Hansteen Holdings	20,831	1.7	
McKay Securities	14,982	1.3	
Financial Services	**95,780**	**8.0**	**7.9**
Brewin Dolphin Holdings	29,397	2.5	
Charles Stanley Group	9,755	0.8	
International Personal Finance	28,245	2.4	
John Laing Group	470	–	
Paragon Group	26,556	2.2	
River & Mercantile Group	1,357	0.1	
Software & Computer Services	**62,965**	**5.3**	**4.9**
Computacenter	22,393	1.9	
Microgen	6,532	0.5	
RM	15,218	1.3	
SDL	18,822	1.6	
Technology Hardware & Equipment	**11,481**	**0.9**	**1.6**
Filtronic	1,785	0.1	
Spirent Communications	9,696	0.8	
Investments as shown in the Balance Sheet	**1,195,581**	**100.3**	**100.0**
Net Liabilities	(3,702)	(0.3)	–
Total Net Assets	**1,191,879**	**100.0**	**100.0**

[1] Listing suspended.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2016.

Summary of Material Investment Transactions

For the year ended 31 December 2015

Purchases	Cost £'000	Sales	Proceeds £'000
Paragon Group	27,216	JD Sports Fashion	79,846
International Personal Finance	26,141	RPC Group	35,335
Nostrum Oil & Gas	17,774	St. Modwen Properties	34,197
Ladbrokes	16,702	QinetiQ Group	33,065
Pendragon	15,453	Optos	27,857
De La Rue	14,609	Tullett Prebon	27,643
Senior	13,167	Spirit Pub Company	24,866
Carpetright	11,415	Anite	23,317
Home Retail Group	11,286	Mecom Group	21,924
SDL	10,805	Synthomer	18,981
Coats Group	10,410	Chime Communications	18,693
Spirent Communications	10,407	Card Factory	18,686
Keller	10,267	Phoenix IT Group	15,365
Northgate	9,528	Colt Group	11,856
Just Retirement Group	9,400	Just Retirement Group	10,823
Eurocell	9,391	Acal	9,988
Brewin Dolphin Holdings	9,060	Promethean World	8,640
Gulf Marine Services	8,978	Spire Healthcare Group	8,512
Findel	8,751	Micro Focus	8,441
Trinity Mirror	8,511	Premier Foods	7,549
Other Purchases	193,941	Other Sales	34,082
Total Purchases (incl. transaction costs)	**453,212**	**Total Proceeds of Sales (incl. transaction costs)**	**479,666**

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2014 NSCI (XIC) Weight %	31 December 2014 Weight %	31 December 2014 Portfolio Valuation £'000	Net[1] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**31 December 2015 Portfolio Valuation £'000**	**31 December 2015 Weight %**	**31 December 2015 NSCI (XIC)[2] Weight %**
Oil & Gas	4	6	41,699	35,149	(31,970)	**44,878**	**4**	**4**
Basic Materials	3	6	31,845	(2,640)	932	**30,137**	**5**	**3**
Industrials	34	23	387,809	15,475	8,575	**411,859**	**23**	**34**
Consumer Goods	5	9	61,840	(2,131)	14,761	**74,470**	**8**	**6**
Health Care	4	6	42,579	(34,864)	11,724	**19,439**	**6**	**2**
Consumer Services	24	20	275,098	(35,452)	47,994	**287,640**	**21**	**24**
Telecommunications	1	2	14,198	(2,224)	6,856	**18,830**	**1**	**2**
Utilities	–	1	–	–	–	**–**	**1**	**–**
Financials	17	21	194,534	27,728	11,621	**233,883**	**25**	**19**
Technology	8	6	89,191	(27,495)	12,749	**74,445**	**6**	**6**
	100	100	1,138,793	(26,454)	83,242	**1,195,581**	**100**	**100**

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2014 No. of Companies	31 December 2014 Portfolio Valuation £'000	31 December 2014 Weight %	31 December 2014 NSCI (XIC) Weight %	**31 December 2015 No. of Companies**	**31 December 2015 Portfolio Valuation £'000**	**31 December 2015 Weight %**	**31 December 2015 NSCI (XIC)[2] Weight %**
FTSE 100	–	–	–	–	**–**	**–**	**–**	**–**
FTSE 250	32	567,989	50	67	**27**	**476,720**	**40**	**63**
FTSE SmallCap	41	471,401	41	27	**40**	**608,769**	**51**	**30**
FTSE Fledgling	7	36,147	3	1	**7**	**23,294**	**2**	**1**
Other	10	63,256	6	5	**12**	**86,798**	**7**	**6**
	90	1,138,793	100	100	**86**	**1,195,581**	**100**	**100**

[1] Includes transaction costs.

[2] This reflects the rebalanced index as at 1 January 2016.

Other Information

Board Diversity

The Board recognises the importance of diversity in its broadest sense (including skills, experience, gender and tenure) in enabling it to fulfil the present and future needs of the Company. As at 31 December 2015, there were three male directors and two female directors.

Environmental, Human Rights, Employee, Social Community Issues

The requirement to detail information about environmental matters, human rights, social and community issues does not apply to the Company as it has no employees; all Directors are non-executive and it has outsourced its functions to third party service providers. The Company's and the Managers' approach to social, environmental and ethical issues is set out within the Corporate Governance Report on page 25.

The Strategic Report, contained on pages 1 to 17, has been approved by the Board of Directors on 27 January 2016 and signed on its behalf by:

Paul Trickett,
Chairman

Governance Report

Board of Directors

Paul Trickett, Chairman

Appointed: 30 January 2013 Remuneration: £ 34,500 p.a.
Shareholding in the Company: 5,270 Ordinary Shares

Paul is a director or trustee to a number of organisations in the financial services and pensions area. He chairs the trustees of the Legal & General master trust, Zurich UK pension scheme, Railpen Investments and is on the board of Insight Investment and Thomas Miller Investment. He also chairs the advisory board of Muse Advisory. He retired from a full time executive career in 2013 where he was latterly a Managing Director at Goldman Sachs Asset Management.

Julia Le Blan

Appointed: 29 January 2014 and is a member of the Audit Committee Remuneration: £ 24,500 p.a.
Shareholding in the Company: 3,000 Ordinary Shares

Julia is a chartered accountant and has worked in the financial services industry for over 30 years. She was formerly a tax partner at Deloitte and expert on the taxation of investment trust companies. She sat for two terms on the AIC's technical committee and is also a Director of Investors Capital Trust plc, Impax Environmental Markets plc and JP Morgan US Smaller Companies Investment Trust plc.

Paula Hay-Plumb

Appointed: 29 January 2014 Remuneration: £ 23,000 p.a.
Shareholding in the Company: 1,600 Ordinary Shares

Paula is a chartered accountant and an experienced director with a wealth of finance and governance expertise in both the private and public sectors. Her previous roles include Corporate Finance and Group Reporting Director at Marks and Spencer plc, Chairman of the National Australia Group Common Investment Fund and non-executive board member of Skipton Building Society and the National Audit Office. Paula is currently a non-executive board member of Hyde Housing Association and of The Crown Estate and Finance Director of Rosling King LLP.

David Jeffcoat

Appointed: 22 July 2009 and is Chairman of the Audit Committee Remuneration: £ 28,000 p.a.
Shareholding in the Company: 7,524 Ordinary Shares

David began his career as a production engineer at Jaguar Cars. After qualifying as an accountant (FCMA) several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently he was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until 2009. He is a Director and Chairman of the Audit Committee of WYG plc. He also works as a volunteer Citizens Advisor.

Richard Rae

Appointed: 26 January 2012 and is a member of the Audit Committee Remuneration: £ 24,500 p.a.
Shareholding in the Company: 4,000 Ordinary Shares

Richard qualified as a chartered accountant with KPMG and joined Hoare Govett as an investment analyst in 1987. He spent 22 years working in investment research and equities management, latterly as a Managing Director, responsible for smaller companies, in the Global Equities division of ABN AMRO. Since 2009, he has established himself as an independent management consultant providing corporate advice to both listed and unlisted companies. He is also a director of Chaarat Gold Holdings Limited.

Directors’ Report

The Directors submit their Report and Accounts for the year ended 31 December 2015.

Directors

The Directors of the Company during the financial year are listed on page 18. Further information about the Board can be found in the Corporate Governance Report, which forms part of this Directors’ Report.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company’s affairs. In common with the majority of investment trusts, the Company has neither executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial, depositary and custodial activities of the Company.

Objective, Investment Policy, Investment Strategy and Risks

These are explained fully in the Strategic Report on pages 4 and 5.

Return and Dividends

The total return attributable to Shareholders for the year ended 31 December 2015 amounted to a gain of £112,178,000 (2014: loss of £7,587,000). The net asset value per Ordinary Share at 31 December 2015 was 1,254.30p (2014: 1,161.14p).

Your Board is pleased to declare a final dividend of 17.85p and a special dividend of 2.75p (total of £19,575,000), which produces total dividends for the year of 28.75p (total of £27,330,000). The final and special dividends, subject to Shareholder approval, will be paid on 4 March 2016 to Shareholders on the register at the close of business on 12 February 2016.

Company Status

The Company is closed-ended investment trust listed on the London Stock Exchange and an Alternative Investment Fund under the Alternative Investment Fund Managers (AIFM) Directive. The Company has been approved by HM Revenue & Customs as an investment trust for accounting periods commencing on or after 1 January 2013 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an investment trust. Furthermore, the Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006.

Investment Managers

Aberforth Partners LLP (the firm, Managers or Aberforth) act as Alternative Investment Fund Manager and Secretaries to the Company. The predecessor business, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.1 billion (as at 31 December 2015). The firm is wholly owned by five partners – four of whom are investment managers. Five investment managers work as a team managing the Company’s portfolio on a collegiate basis: Euan Macdonald, Keith Muir, Richard Newbery, Alistair Whyte and Mark Williamson.

These services can be terminated by either party at any time by giving six months’ notice of termination. Compensation would be payable in respect of this six month period only if termination were to occur sooner. With effect from 1 July 2015, Aberforth receives an annual management fee, payable quarterly in advance, equal to 0.75% of the net assets of up to £1 billion, and 0.65% thereafter. Previously the Managers were paid an annual management fee, payable quarterly in advance equal to: 0.80% of the net assets up to £800m; plus 0.70% of the net assets between £800m and £1 billion; plus 0.6% of the net assets in excess of £1 billion (if any). For illustrative purposes, if the revised management fee tariff had been in place for the whole of 2015, the saving in fees would have been approximately £213,000.

The management fee amounted to £8,755,000 in the year ended 31 December 2015 (2014: £8,639,000).

The secretarial fee, payable quarterly in advance, amounted to £79,108 (excluding VAT) during 2015. It is adjusted annually in line with the Retail Prices Index and is subject to VAT, which is currently irrecoverable by the Company.

The Board reviews the Company’s investment management and secretarial arrangements on an on-going basis and formally at its October meeting, where each Director completes a Managers’ Evaluation questionnaire. The Board then considers the results of the questionnaire and discusses the following matters, amongst others, in its review:

- investment performance in relation to the investment objective, policy and strategy;
- the continuity and quality of personnel managing the assets;
- the level of the management fee;
- the quality of reporting to the Board;

Directors' Report

- the alignment of interests between the Managers and the Company's Shareholders;
- the administrative services provided by the Secretaries; and
- the level of satisfaction of major Shareholders with the Managers.

Following the most recent review, the Board was of the opinion that the continued appointment of Aberforth as investment managers, on the terms agreed, remains in the best interests of Shareholders.

Depositary

National Westminster Bank plc carry out the duties of Depositary as specified in the Alternative Investment Fund Managers (AIFM) Directive in relation to the Company, including:

- holding or controlling all assets of the Company that are entrusted to it for safekeeping;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Managers.

In carrying out such duties, the Depositary acts in the best interests of the Shareholders of the Company. The Depositary is contractually liable to the Company for the loss of any assets entrusted to it. The Depositary is also liable to the Company for all other losses suffered as a result of the Depositary's fraud, negligence and/or failure to fulfil its duties properly.

National Westminster Bank plc receives an annual fee, payable quarterly in arrears, of 0.0125% of the net assets of the Company and their appointment may be terminated at any time by giving at least six months' notice. A Depositary may only be removed from office when a new Depositary is appointed by the Company.

Capital Structure and Share Buy-Backs

At 31 December 2015, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 95,023,792 were issued and fully paid. During the year, 321,000 shares (0.3% of the Company's issued share capital with a nominal value of £3,210) were bought back and cancelled at a total cost of £3,675,000. No shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares are made only at a level that enhances the net asset value per share (NAV), the principal objective of any such purchase is to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to continue to use the share purchase facility within guidelines established from time to time by the Board.

Continuation of the Company

The Company has no fixed duration. However, in accordance with the Company's Articles of Association, Shareholders are asked every three years to vote on the continuation of the Company and an ordinary resolution will be proposed at the Annual General Meeting to be held in 2017.

If such resolution is not passed, the Directors will prepare and submit to Shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide Shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If such proposals are not approved, Shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of Ordinary Shares and distributed, pro rata, among such holders.

Going Concern

In accordance with the report "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the Financial Reporting Council, the Audit Committee has undertaken and documented an assessment of whether the Company is a going concern. The Committee then reported the results of its assessment to the Board.

The Company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development, performance and Viability Statement are set out in the Strategic Report. In addition, the Annual Report includes the Company's objectives, policies and processes for managing its capital, its financial risk, details of its financial instruments and its exposures to credit risk and liquidity risk. The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet any funding requirements, though funding flexibility can typically be achieved through the use of the bank debt facility. The Company has adequate financial resources to enable it to meet its day-to-day working capital requirements.

In summary and taking into consideration all available information, the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis.

Directors' Report

Voting Rights of Shareholders

At Shareholder meetings and on a show of hands, every Shareholder present in person or by proxy has one vote and, on a poll, every shareholder present in person has one vote for each share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed.

The Board is pleased to offer electronic proxy voting, including CREST voting capabilities. Further details can be found in the Notice of the AGM.

Notifiable Share Interests

The Board has received notifications of the following interests in 3% or more of the voting rights of the Company as at 31 December 2015 and 27 January 2016. The total number of votes amounted to 95,023,792 at each of these dates.

Interested person	Percentage of Voting Rights Held
Investec Wealth & Investment Limited	8.3
Brewin Dolphin Limited	8.2
Rathbone Brothers plc	5.5

Annual General Meeting

The AGM will be held on Tuesday, 1 March 2016 at 6.00 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM:

Purchase of Own Shares

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the AGM. Resolution 11, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2017. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options or warrants to subscribe for equity shares in the capital of the Company.

Directors' Recommendation

The Directors consider each resolution being proposed at the AGM to be in the best interests of shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do so in respect of their own beneficial shareholdings.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006:

- The Company's capital structure and voting rights are summarised on pages 20 and 21.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on pages 23 and 24.
- Amendment of the Company's Articles of Association and powers to issue shares on a non pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by shareholders.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements to which the Company is party that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Directors' Report

Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Bribery Act 2010

The Company has zero tolerance of bribery and is committed to carrying out business fairly, honestly and openly.

Independent Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information.

Future Developments

The future success of the Company is dependent primarily on the performance of its investments. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective and the stated investment strategy and policy.

By Order of the Board
Paul Trickett
Chairman
27 January 2016

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the 2015 AIC Code of Corporate Governance (the AIC Code) as set out in the AIC Guide. The AIC Code addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Board considers that reporting in accordance with the principles and recommendations of the AIC Code provides more reliable and comprehensive information to shareholders. Both the AIC Code and the AIC Guide are available on the AIC website at www.theaic.co.uk.

Compliance

Throughout the year ended 31 December 2015 the Company complied with the recommendations of the AIC Code except, as explained below, where the Company does not believe it appropriate to comply.

The Board, being small in size and composed entirely of independent non-executive Directors, has not appointed a Remuneration or a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole. The Board has also decided not to nominate a Deputy Chairman or a Senior Independent Director, although David Jeffcoat, as Chairman of the Audit Committee, fulfils this role when necessary, for example in taking the lead in the annual evaluation of the Chairman.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive Directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are considered at its meetings. The Board comprises five non-executive Directors, of whom Mr Trickett is Chairman. A formal schedule of matters reserved for decision by the Board has been adopted. The Board has engaged external firms to provide investment management, secretarial, depositary and custodial services. Contractual arrangements are in place between the Company and these firms.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. An individual can therefore be considered to be independent even though their length of service exceeds nine years. No limit on the overall length of service of any of the Directors, including the Chairman, has therefore been imposed. All Directors are presently considered to be independent. All Directors retire at the AGM each year and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of their engagement as a non-executive Director, copies of which are available on request and available at the AGM.

Meetings

The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance compared with its benchmark index. The Directors also review several key areas including:

- the stockmarket environment;
- the Company's investment activity over the quarter relative to its investment policy;
- performance in relation to comparable investment and unit trusts;
- the revenue account, balance sheet and gearing position;
- share price discount (both absolute levels and volatility);
- shareholder register (including significant changes);
- regulatory matters; and
- relevant industry issues.

The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment strategy.

Corporate Governance Report

The following highlights various additional matters considered by the Board during the past year:

January		April	July		October	
Consider Final Dividend	Approval of the Annual Report	Shareholder Communication	Consider Interim Dividend	Approval of Half Yearly Report	Internal Control Review	Corporate Governance Review
Review of Investment Trust Peer Group	Review of Directors' Fees	Review of Gearing	Review of significant interests	Annual Strategy Review	Review Managers' continued appointment and remuneration	Board & Committee Evaluation
		Managers' Remuneration				

The following table sets out the Directors of the Company during the financial year, together with the number of Board and Committee meetings held and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the AGM in February 2015.

	The Board		Audit Committee	
Director	Eligible to attend	Attended	Eligible to attend	Attended
S P Trickett, Chairman	5	5	–	–
P M Hay-Plumb	5	5	–	–
D J Jeffcoat	5	5	3	3
J Le Blan	5	5	3	3
R A Rae	5	5	3	3

Appointments to the Board

No directors were appointed during 2015.

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Directors conducted this internal review of the Board and the Audit Committee by way of an evaluation questionnaire, the results of which are summarised and discussed providing valuable feedback for improving Board effectiveness and highlighting areas for further development. The appraisal of the Chairman is led by the Chairman of the Audit Committee. The Board has considered the use of external consultants as facilitators and has agreed to utilise such services in 2016.

In line with the Board's policy, all Directors being eligible, offer themselves for re-election at the forthcoming AGM. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends their re-election to Shareholders.

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance cover in respect of legal action against its Directors. The Company has also entered into a deed of indemnity with each Director to cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fines.

Training and Advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. All Directors are entitled to receive appropriate training when required and changes affecting Directors' responsibilities are advised to the Board as they arise. Directors, in the furtherance of their duties, may also seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

All Directors have access to the advice and services of the Company's Secretaries, Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Corporate Governance Report

Conflicts of Interest

Company directors have a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures for managing any actual or potential conflicts of interest. No conflicts of interest arose during the year under review.

Risk Management and Internal Control

The Board has overall responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The Company applies the revised guidance published by the Financial Reporting Council on internal controls. Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the Company's financial information is reliable. The Directors have an on-going process for identifying, evaluating and managing the significant risks faced by the Company which are recorded in a risk matrix. The Board considers each risk as well as reviewing the mitigating controls in place. Each risk is rated for its "likelihood" and "impact" and the resultant numeric rating determines its ranking into High, Medium or Low Risk. This was in operation during the year and continues in place up to the date of this report. This process principally comprises the Audit Committee receiving and examining regular reports from key service providers. The Board then receives a detailed report from the Audit Committee on its findings. As a consequence the Directors have not identified any significant failures or weaknesses in respect of the Company's internal control systems.

Communications with Shareholders

The Board places great importance on communication with shareholders. The Managers meet the larger shareholders twice a year and provide them with a detailed report on the progress of the Company. The Board receives reports from the Managers of these shareholder meetings. Directors of the Company are always available to meet with any shareholder on request. Furthermore, following publication of the Annual Report, the Chairman emails the largest shareholders inviting questions on all aspects concerning the Company. The Directors may be contacted through the Secretaries whose details are shown on the inside back cover or through the Chairman's email address, paul.trickett@aberforth.co.uk. In addition to the annual and half yearly reports, the Company's performance, daily Net Asset Values, monthly factsheets and other relevant information is published at www.aberforth.co.uk.

All shareholders have the opportunity to attend and vote at the AGM where the Directors and Managers are available to discuss important issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

Socially Responsible Investment

The Directors, through the Managers, encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Managers believe that sound social, environmental and ethical policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of social, environmental and ethical concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

UK Stewardship Code

The Board and the Managers support the UK Stewardship Code, issued by the FRC in September 2012, which sets out the principles of effective stewardship by institutional investors. The Company's investment portfolio is managed by Aberforth Partners LLP who invest exclusively in small UK quoted companies and, as a significant investor within this asset class, the Managers have a strong commitment to effective stewardship.

The Board has reviewed, and endorses, the Managers' Corporate Governance and Stewardship Code Policy Statement which is available within the literature library section of the Managers' website, at www.aberforth.co.uk.

Voting Policy

The Board has given discretionary voting powers to its Managers to exercise the voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned. The Board receives quarterly reports from the Managers on governance issues (including voting) pertaining to investee companies. The Board also reviews and endorses, from time to time, the Managers' voting guidelines and its stance towards SRI matters.

By Order of the Board
Paul Trickett
Chairman
27 January 2016

Audit Committee Report

The Committee members are all independent non-executive directors who have been selected by the Board to fulfil the Committee's duties based upon their range of financial and commercial expertise. They are David Jeffcoat (Chairman), Richard Rae and Julia Le Blan. The members' biographies can be found on page 18.

Key Objective:

The objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so the Committee operates within terms of reference that have been agreed by the Board. These terms of reference are reviewed annually and are available upon request. They will also be available for inspection at the AGM.

Principal Responsibilities:

Under its terms of reference the Committee has been given the following key responsibilities:

- ensuring that all of the Company's principal risks are identified;
- monitoring the mitigating controls that have been established by its main third party service providers;
- monitoring compliance with the relevant statutory, regulatory and taxation requirements for a UK based investment trust;
- reviewing the Company's financial statements, the accounting policies adopted and the main judgemental areas;
- ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable;
- agreeing the external Auditor's terms of appointment, determining the independence and objectivity of the Auditor and assessing the effectiveness of the audit; and
- considering whether it is appropriate for certain non-audit services to be carried out by the Auditor.

The Chairman reports formally to the Board on the Committee's proceedings after each meeting. To assist with the various duties of the Committee, the following Annual Plan has been adopted:

Audit Committee Annual Plan

January
- Annual Report including judgemental areas, going concern letter of representation, expense analysis and Annual Report announcement
- Key Risks
- Provision of non-audit services, including taxation compliance services
- Custodian's Controls Report update
- Audit meeting/ evaluation of the audit including auditor independence
- Investment Trust Status

April
- Meetings to be called if required

July
- Half Yearly Report including judgemental areas, expense analysis and Half Yearly Report announcement
- Key Risks
- Investment Trust Status
- Basis of Management Fee allocation (every three years)
- Committee's Terms of Reference
- Audit Fees

October
- Corporate Governance Compliance
- Key Risks
- Investment Trust Status
- Self evaluation of the Committee
- Audit Plan
- Internal Controls Review including reports from the Managers and other third parties
- Auditor Plan, together with the Terms of Engagement
- Depositary Report

Meetings

Three meetings are typically held each year and this was the case in 2015. Additional meetings take place if necessary. Representatives of Aberforth Partners LLP, who provide the Company with Secretarial services, attended all of the meetings. Deloitte LLP ("Deloitte"), the external auditor, attended the meetings in January and October.

Audit Committee Report

During the last twelve months the Committee has focused on the areas described below.

Financial Reporting

The half yearly financial results, published on 29 July 2015, were not audited. Therefore the Committee's business in July was focussed on a discussion, with supporting documentation from the Secretaries, on the preparation and content of the Half Yearly Report, together with other aspects such as going concern.

In January 2016 the Committee received a report and supporting presentation from the external Auditor on its audit of the financial statements for the year to 31 December 2015. This included details of the steps it had taken to confirm the valuation and ownership of the investment portfolio. In addition, the Secretaries reported on the preparation of the financial results and other relevant matters. The Committee considered these reports in detail and took further comfort from the internal control review discussed below. The Chairman of the Committee discussed the result of the audit and the Annual Report with the audit partner without representatives of Aberforth Partners. Consequently, the Committee concluded that it was satisfied as to:

- the ownership and valuation of the investment portfolio as at 31 December 2015;
- revenue recognition including dividend completeness and the accounting treatment of each special dividend recognised during the period.

The Committee read and discussed this Annual Report and concluded that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, objective and strategy.

As a result the Committee agreed that it could recommend to the Board that the financial statements be approved for publication.

Going Concern and Viability

The Committee received reports on going concern from the Secretaries in July and January, reflecting the guidance published by the FRC. The content of the investment portfolio, trading activity, portfolio diversification and the existing debt facility were also discussed. After due consideration, the Committee concluded it was appropriate to prepare the Company's accounts on a going concern basis and made this recommendation to the Board. The relatively high level of liquidity of the portfolio was the main factor that led to this conclusion.

The Committee also assessed the viability of the Company. In keeping with the new reporting, the Committee in October 2015 discussed and agreed a draft Viability Statement. They agreed to provide this statement for a five year period for the reasons set out in the statement on page 5. In January 2016, the Committee conducted a series of stress tests that considered the impact of severe market downturn scenarios on Shareholders' funds, the debt facility, investment income and also the potential loss of investment trust status. The outcome of this activity led the Committee to recommend to the Board to make the statement on page 5.

Internal Control and Risks

The Committee carefully considered a Matrix of the Company's principal risks and the mitigating controls at each meeting. In October the risks and controls were addressed in more detail. The Committee enhanced the design and content of the Matrix during the year and believes that it continues to reflect accurately the Company's principal risks. These risks, which are detailed on page 5 of this Report, have not changed during the year.

Also in October the Committee received the Managers' report on internal controls, including the assurance report issued by PricewaterhouseCoopers LLP (PwC) on the nature and effectiveness of the control framework that has been established by the Managers. A representative of PwC attended the meeting. In addition, the Committee received internal control reports from Northern Trust and Capita Registrars. The Committee reviewed these reports and concluded that there were no significant control weaknesses or other issues that needed to be brought to the Board's attention.

The Committee considered the increasing risk arising from cyber threats. As the Company outsources all of its activities, the Committee received reports from the Managers, Northern Trust, RBS and Capita Registrars on cyber security and concluded that appropriate measures are in place. Nevertheless this potential area of risk will continue to be monitored closely in the future.

The Committee also discussed whether there was a need for a dedicated internal audit function. The Committee concluded that, as the Company has no employees and sub-contracts all of its operations to key third party suppliers, an internal audit function is not necessary.

Investment Trust Status

It is essential for the Company's to maintain its investment trust status. The Committee confirms this point at each meeting with reference to a checklist prepared by the Secretaries.

Audit Committee Report

Appointment of the External Auditor

Deloitte was appointed as the Company's auditor in April 2013 following a formal tender process. This was a new appointment which has been renewed at each subsequent AGM. Based upon existing legislation and that which is currently anticipated, another tender process would not be required until 2023.

Audit Planning and Audit Fees

The external audit partner from Deloitte presented the detailed audit plan to the Committee in October in advance of the 2015 audit. The plan set out the scope of the audit, the principal risks (as detailed in the Independent Auditor's Report), the timetable and the proposed fees. These amounted to £19,500, excluding VAT, for the year (2014: £18,750). There were no non-audit activities carried out by Deloitte. Deloitte also set out its position on audit independence which was accepted by the Committee.

Evaluation of the Auditor

Following the completion of the audit, in January 2016, the Committee reviewed the Auditor's effectiveness. The Committee acknowledged that the audit team comprised staff with appropriate levels of knowledge and experience and that Andrew Partridge, the audit partner, who has significant experience of the investment trust sector, had served for three year-ends. The Committee noted positive feedback from the Secretaries on Deloitte's performance on the audit. Additionally Deloitte had provided confirmation that it had complied with the relevant UK professional and regulatory requirements on independence.

Taking these factors into account, the Committee is satisfied that the external audit was carried out effectively. It has therefore recommended to the Board the re-appointment of Deloitte as the Company's auditor for the 2016 financial year. The Board has given its support and a proposal will be put to Shareholders at the forthcoming AGM.

Committee Evaluation

A formal internal review of the Committee's effectiveness, using an evaluation questionnaire, was undertaken during the year. The outcome was positive with no significant concerns expressed.

David Jeffcoat
Audit Committee Chairman
27 January 2016

Directors' Remuneration Policy

This section provides details of the remuneration policy applying to the Directors of the Company. All Directors are non-executive, appointed under the terms of letters of appointment and none has a service contract. The Board has prepared this report in accordance with the requirements of the Companies Act 2006.

This policy was previously approved by Shareholders at the Annual General Meeting held in 2015. The policy provisions continue to apply until they are next put to Shareholders for approval, which must be at intervals not exceeding three years. This policy, together with the Directors' letters of appointment may be inspected at the Company's registered office.

The Board considers and determines all matters relating to the Directors' remuneration at the beginning of each financial period. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Company's Policy on Directors' Remuneration

The Company's policy is that the remuneration of the Directors should be commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of appropriate quality and experience. No Shareholder has expressed any views to the Company in respect of Directors' remuneration. Remuneration Policy is not subject to employee consultation as the Company has no employees. It is intended that this policy will remain in place for the following financial year and subsequent periods.

The Board, at its discretion, shall determine Directors' remuneration subject to the aggregate annual fees not exceeding £200,000 in accordance with the Company's Articles of Association. Such remuneration is solely composed of Directors' fees and Directors are not eligible for any other remuneration.

The table below sets out the Directors' fees in respect of the years ended 31 December 2015 and 31 December 2016:

	Annual Fees 2016 £	Annual Fees 2015 £
Chairman of the Company	**34,500**	34,500
Director and Chairman of the Audit Committee	**28,000**	28,000
Director and Member of the Audit Committee	**24,500**	24,500
Director	**23,000**	23,000

Loss of Office

A Director may be removed without notice and no compensation will be due on loss of office.

Expenses

All directors are entitled to the reimbursement of expenses paid by them in order to perform their duties as a Director of the Company.

Review of the Remuneration Policy

The Board has agreed to review the above policy at least annually to ensure that it remains appropriate.

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. The law requires the Company's Auditor to audit certain elements of this report. These elements are described below as "audited". The Auditor's opinion is included in the Independent Auditor's Report on page 33.

Directors' Letters of Appointment

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to annual re-election by Shareholders. After the initial period, each Director's term is, upon review, extended for a further year. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter at every subsequent Annual General Meeting.

The following Directors held office during the year:

Director	Date of Appointment	Date of election/ re-election
S P Trickett, *Chairman*	29 January 2013	AGM 2016
P M Hay-Plumb	29 January 2014	AGM 2016
D J Jeffcoat	22 July 2009	AGM 2016
J Le Blan	29 January 2014	AGM 2016
R A Rae	26 January 2012	AGM 2016

Each Director's unexpired term is subject to their re-election at the Annual General Meeting in March 2016.

Directors' Fees (Audited)

The emoluments of the Directors who served during the year were as follows:

Director	**Fees (Total Emoluments) 2015 £**	Fees (Total Emoluments) 2014 £
S P Trickett, Chairman	**34,500**	25,654
D J Jeffcoat, Chairman of the Audit Committee	**28,000**	27,500
J Le Blan	**24,500**	21,188
P M Hay-Plumb	**23,000**	20,750
R A Rae	**24,500**	23,500
Prof P R Marsh, retired 17 October 2014	**–**	26,884
Prof W S Nimmo, retired 27 February 2014	**–**	3,625
	134,500	149,101

Directors are remunerated exclusively by fixed fees and do not receive bonuses, share options, pension contributions or other benefits apart from the reimbursement of allowable expenses.

The following table shows the remuneration of the Directors in relation to distributions to Shareholders by way of dividends and share buybacks:

	2015 £'000	2014 £'000	Absolute change £'000
Total Directors' remuneration	**135**	149	(14)
Total dividends in respect of that year	**27,330**	23,600	3,730
Total share buyback consideration	**3,675**	403	3,272

Directors' Remuneration Report

Statement of Directors' Shareholdings and Share Interests

The Directors who held office at any time during the year ended 31 December 2015 and their interests in the Shares of the Company as at that date and 1 January 2015 were as follows:

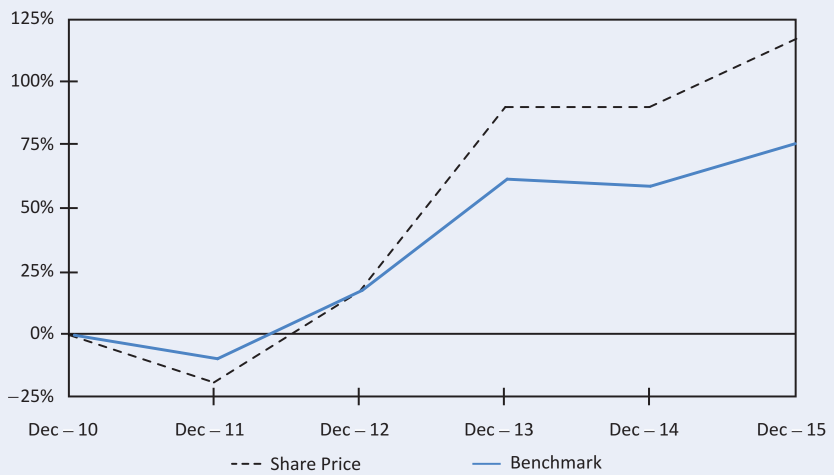
		Ordinary Shares	
Directors	Nature of Interest	**31 December 2015**	1 January 2015
S P Trickett, Chairman	Beneficial	5,270	3,950
J Le Blan	Beneficial	3,000	1,500
D J Jeffcoat	Beneficial	7,524	7,361
P M Hay-Plumb	Beneficial	1,600	800
R A Rae	Beneficial	4,000	4,000

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2015 and 27 January 2016. The Company has no share options or share schemes. Directors are not required to own shares in the Company.

Consideration of Shareholders' Views and Statement of Voting

An ordinary resolution to approve the remuneration report is put to members at each Annual General Meeting and Shareholders have the opportunity to express their views and raise any queries in respect of the remuneration policy at this meeting. To date, no Shareholders have commented in respect of the remuneration report or policy.

At the last Annual General Meeting held on 27 February 2015, Shareholders, on a show of hands, passed the resolutions to approve the Directors' Remuneration Report and the Directors' Remuneration Policy. Of the 38,065,395 proxy votes, 38,055,049 were cast in favour, 7,045 were cast against and 3,301 votes were withheld in respect of the resolution.



Note: For further information on the above graph, please refer to the Historic Total Returns tables on page 6.

Share Price Performance

This graph compares the performance of the Company's share price with the Numis Smaller Companies Index (excluding Investment Companies), on a total return basis (assuming all dividends reinvested). This index has been selected for the purposes of comparing the Company's share price performance as it has been the Company's benchmark since inception.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Directors' Remuneration Report summarises, as appropriate, for the year ended 31 December 2015:

(a) the major decisions on Directors' remuneration;

(b) any substantial changes relating to Directors' remuneration made during the year; and

(c) the context in which those changes occurred and decisions were taken.

On behalf of the Board

Paul Trickett
Chairman

27 January 2016

Directors' Responsibility Statement

The Directors are required by law to prepare financial statements for each financial year in accordance with applicable law and regulations. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company's Managers. The work undertaken by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

Each of the Directors confirms to the best of their knowledge that:

(a) the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces;

(c) the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board
Paul Trickett
Chairman

27 January 2016

Independent Auditor's Report
To the Members of Aberforth Smaller Companies Trust plc

Opinion on financial statements of Aberforth Smaller Companies Trust plc

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of the company's return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland").

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the company

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the financial statements and the directors' statement on the longer-term viability of the company contained within the strategic report on page 5.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 5 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on page 5 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 20 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the director's explanation on page 5 as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Valuation and ownership of investments The listed investments of the Company £1,196m (2014: £1,139m) make up 100.3% of total net assets £1,192m (£1,107m). Please see notes 9 and 18. Investments listed on recognised exchanges are valued at the closing bid price at the year end. There is a risk that investments may not be valued correctly or may not represent the property of the Company.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source; • agreed 100% of the Company's investment portfolio at the year end to confirmation received directly from the custodian and depositary; and • reviewed the internal controls report over Northern Trust, as it applied to custody and attended the Audit Committee meeting at which the Northern Trust controls report was evaluated to assess the adequacy of the design and implementation of controls at the custodian.

Independent Auditor's Report

Risk	How the scope of our audit responded to the risk
Revenue recognition, completeness and allocation between revenue and capital Dividends from equity shares totalling £38m (2014: £30m) are accounted for on an ex-dividend date as revenue, except where; in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Please see note 2. There is a risk that revenue is incomplete or incorrectly allocated between revenue and capital accounts.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over revenue recognition, completeness and allocation; • for a sample of corporate actions and all special dividends we challenged management's rationale for the allocation between revenue and capital against the requirements of the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") and agreed details of the dividend to a third party source to evidence the nature of the dividend and completeness of the listing; • evaluated the accounting policies for revenue recognition against the requirements of UK Generally Accepted Accounting Practice and the SORP; and • for a sample of investments, agreed the ex-dividend dates and rates for dividends declared, obtained from an independent pricing source to the Company's dividend listing and bank statements to determine that the dividends have been correctly recognised and to determine completeness of the population.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 27.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be £11.9m (2014: £11.1m), which is 1% (2014: 1%) of Total Net Assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £238,000 (2014: £221,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Independent Auditor's Report

Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Partridge (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
Edinburgh, United Kingdom

27 January 2016

(a) The maintenance and integrity of the Aberforth Partners LLP web site is the responsibility of the partners of Aberforth Partners LLP; the work carried out by the auditor of Aberforth Smaller Companies Trust plc does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2015

	Note	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Gains/(losses) on investments	9	**–**	**87,132**	**87,132**	–	(24,628)	(24,628)
Investment income	2	**37,652**	**1,462**	**39,114**	30,166	291	30,457
Other income	2	**–**	**–**	**–**	1	–	1
Investment management fee	3	**(3,283)**	**(5,472)**	**(8,755)**	(3,240)	(5,399)	(8,639)
Transaction costs	4	**–**	**(3,890)**	**(3,890)**	–	(3,346)	(3,346)
Other expenses	4	**(778)**	**–**	**(778)**	(661)	–	(661)
Net return before finance costs and tax		**33,591**	**79,232**	**112,823**	26,266	(33,082)	(6,816)
Finance costs	5	**(242)**	**(403)**	**(645)**	(289)	(482)	(771)
Return on ordinary activities before tax		**33,349**	**78,829**	**112,178**	25,977	(33,564)	(7,587)
Tax on ordinary activities	6	**–**	**–**	**–**	–	–	–
Return attributable to equity shareholders		**33,349**	**78,829**	**112,178**	25,977	(33,564)	(7,587)
Returns per Ordinary Share	8	**35.03p**	**82.80p**	**117.83p**	27.24p	(35.19)p	(7.95)p

The Board declared on 27 January 2016 a final dividend of 17.85p per Ordinary Share and a special dividend of 2.75p per Ordinary Share. The Board also declared on 29 July 2015 an interim dividend of 8.15p per Ordinary Share.

The total column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2015

	Note	**Share capital £'000**	**Capital redemption reserve £'000**	**Special reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
Balance as at 31 December 2014		953	35	176,300	877,052	53,000	1,107,340
Return on ordinary activities after taxation		–	–	–	78,829	33,349	112,178
Equity dividends paid	7	–	–	–	–	(23,964)	(23,964)
Purchase of Ordinary Shares		(3)	3	(3,675)	–	–	(3,675)
Balance as at 31 December 2015		**950**	**38**	**172,625**	**955,881**	**62,385**	**1,191,879**

For the year ended 31 December 2014

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2013		954	34	176,703	910,616	49,818	1,138,125
Return on ordinary activities after taxation		–	–	–	(33,564)	25,977	(7,587)
Equity dividends paid	7	–	–	–	–	(22,795)	(22,795)
Purchase of Ordinary Shares		(1)	1	(403)	–	–	(403)
Balance as at 31 December 2014		953	35	176,300	877,052	53,000	1,107,340

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2015

	Note	**2015 £'000**	2014 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**1,195,581**	1,138,793
Current assets			
Debtors	10	**2,725**	2,670
Cash at bank		**1,025**	238
		3,750	2,908
Creditors (amounts falling due within one year)	11	**(510)**	(209)
Net current assets		**3,240**	2,699
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,198,821**	1,141,492
Creditors (amounts falling due after more than one year)	12	**(6,942)**	(34,152)
TOTAL NET ASSETS		**1,191,879**	1,107,340
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital: Ordinary Shares	13	**950**	953
Capital redemption reserve	14	**38**	35
Special reserve	14	**172,625**	176,300
Capital reserve	14	**955,881**	877,052
Revenue reserve	14	**62,385**	53,000
TOTAL SHAREHOLDERS' FUNDS		**1,191,879**	1,107,340
NET ASSET VALUE PER SHARE	15	**1,254.30p**	1,161.41p

Approved and authorised for issue by the Board of Directors on 27 January 2016 and signed on its behalf by:

Paul Trickett,
Chairman

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Operating activities			
Net revenue before finance costs and tax		**33,591**	26,266
Tax withheld from income		**(59)**	–
Tax recovered		**–**	15
Receipt of special dividend taken to capital	2	**1,462**	291
Investment management fee charged to capital	3	**(5,472)**	(5,399)
Increase in debtors		**(432)**	(129)
Increase in other creditors		**47**	36
Net cash inflow from operating activities		**29,137**	21,080
Investing activities			
Purchases of investments		**(452,925)**	(419,879)
Sales of investments		**480,102**	420,312
Cash inflow from investing activities		**27,177**	433
Financing activities			
Purchases of Ordinary Shares	13	**(3,675)**	(403)
Equity dividends paid	7	**(23,964)**	(22,795)
Interest and fees paid	16	**(638)**	(863)
Net (repayment)/drawdown of bank debt facilities (before any costs)	12	**(27,250)**	2,250
Cash outflow from financing activities		**(55,527)**	(21,811)
Change in cash during the period		**787**	(298)
Cash at the start of the period		**238**	536
Cash at the end of the period		**1,025**	238

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Significant Accounting Policies

A summary of the principal accounting policies adopted, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of accounting

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and under the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital trust (SORP) issued in 2014. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2015. There have been no changes in accounting policies as a consequence of adopting FRS 102. The Cash Flow Statement for 31 December 2014, has been re-presented to be consistent with the format of FRS 102. The financial statements have been prepared on a going concern basis. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates.

(b) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Quoted investments are valued at their fair value, which is represented by the bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value. Purchases and sales of investments are accounted for on trade date.

As investments have been categorised as "financial assets at fair value through profit or loss", gains and losses arising from changes in fair value are included in the capital return for the period and transaction costs on acquisition or disposal of a security are expensed to the capital reserve.

(c) Income

Dividends receivable on quoted equity shares are accounted for on the ex dividend date as revenue, except where, in the opinion of the Board, the dividend is capital in nature, in which case it is treated as a return of capital. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, an amount equivalent to the cash dividend is recognised as income. Any surplus or deficit in the value of the shares received compared to the cash dividend forgone is recognised as capital. Other income is accounted for on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue except as follows:

- expenses that are incidental to the acquisition and disposal of an investment are charged to capital; and
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect 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.

(e) Finance costs

Interest costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are 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.

The arrangement fee in relation to the £125 million bank debt facility is being amortised over the expected life of the facility (with 62.5% allocated to capital reserve and 37.5% to revenue reserve) on a straight line basis. The unamortised value of these costs is deducted from the fair value of the bank debt facility.

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year end;
- gains on the return of capital by way of investee companies paying dividends capital in nature; and
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation is accounted for in this reserve.

(h) Revenue reserve

This reserve represents the only reserve from which dividends can be funded.

Notes to the Financial Statements

2 Income

	2015 £'000	2014 £'000
Income from investments		
UK dividend income	**35,739**	28,765
Overseas dividends	**1,374**	1,036
Property income distributions	**516**	336
Convertible Bond income	**23**	29
	37,652	30,166
Other income		
Deposit interest	**–**	1
Total income	**37,652**	30,167
Total income comprises:		
Dividends	**37,629**	30,137
Convertible Bond income	**23**	29
Deposit interest	**–**	1
	37,652	30,167

During the year the Company received special dividends amounting to £6,062,000 (2014: £3,959,000), of which £1,462,000 (2014 – £291,000) were considered as a return of capital by the investee company.

3 Investment Management Fee

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Investment management fee	**3,283**	**5,472**	**8,755**	3,240	5,399	8,639

Details of the investment management contract can be found on page 19.

4 Other Expenses

	2015 £'000	2014 £'000
The following expenses (including VAT, where applicable) have been charged to revenue:		
Depositary fee	**179**	84
Directors' fees (refer to Directors' Remuneration Report)	**135**	149
Secretarial services	**95**	93
Registrar fee	**65**	69
Custody and other bank charges	**57**	57
FCA and LSE listing fees	**56**	48
Legal fees	**31**	28
Auditor's fee – for audit services: recurring	**23**	23
– for non-audit services	**–**	–
AIC fees	**21**	23
Directors' and Officers' liability insurance	**11**	11
Other expenses	**105**	76
	778	661

Notes to the Financial Statements

4 Other Expenses *(continued)*

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss, and charged to capital, are analysed below:

	2015 £'000	2014 £'000
Analysis of total purchases		
Purchase consideration before expenses	**450,199**	417,475
Commissions	**949**	763
Taxes	**2,064**	1,647
Total purchase expenses	**3,013**	2,410
Total purchase consideration	**453,212**	419,885
Analysis of total sales		
Sales consideration before expenses	**480,543**	421,684
Commissions	**(877)**	(936)
Total sale proceeds net of expenses	**479,666**	420,748
Total expenses incurred in acquiring or disposing of investments	**3,890**	3,346

5 Finance Costs

		2015			2014	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	**227**	**378**	**605**	274	457	731
Amortisation of bank debt facility costs	**15**	**25**	**40**	15	25	40
	242	**403**	**645**	289	482	771

6 Taxation

Analysis of tax charged on return on ordinary activities	**2015 £'000**	2014 £'000
UK corporation tax charge for the year (see below)	**–**	–

Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company. The differences are explained below:

Total returns on ordinary activities before tax	**112,178**	(7,587)
Notional corporation tax at 20.25% (2014 – 21.5%)	**22,716**	(1,631)
Non-taxable UK dividends	**(7,284)**	(6,184)
Non-taxable overseas dividend income	**(232)**	(223)
Expenses not deductible for tax purposes	**788**	719
Expenses for which no relief has been taken	**1,656**	2,024
Non-taxable capital (gains)/losses	**(17,644)**	5,295
UK corporation tax charge for the year	**–**	–
Irrecoverable overseas taxation suffered	**–**	–
Total tax charge for the year	**–**	–

The Company has not recognised a potential asset for deferred tax of £19,722,000 (2014: £18,426,000) in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted.

Notes to the Financial Statements

7 Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2014 of 17.00p (2013: 16.15p) paid on 5 March 2015	**16,209**	15,404
Interim dividend for the year ended 31 December 2015 of 8.15p (2014: 7.75p) paid on 27 August 2015	**7,755**	7,391
	23,964	22,795
Amounts not recognised in the period:		
Final dividend for the year ended 31 December 2015 of 17.85p (2014: final dividend of 17.00p) payable on 4 March 2016	**16,962**	16,209
Special dividend for year ended 31 December 2015 of 2.75p (2014: Nil) payable on 4 March 2016	**2,613**	–
	19,575	16,209

The final dividend and the special dividend have not been included as liabilities in these financial statements.

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

	2015	2014
Returns attributable to Ordinary Shareholders	**£112,178,000**	£(7,587,000)
Weighted average number of shares in issue during the year	**95,200,792**	95,367,970
Return per Ordinary Share	**117.83p**	(7.95)p

9 Investments

	2015 £'000	2014 £'000
Investments at fair value through profit or loss		
Opening fair value	**1,138,793**	1,167,630
Opening fair value gains on investments	**(94,517)**	(269,440)
Opening book cost	**1,044,276**	898,190
Purchases at cost	**450,199**	417,475
Sale proceeds	**(480,543)**	(421,684)
Realised gains on sales	**186,289**	150,295
Closing book cost	**1,200,221**	1,044,276
Closing fair value (losses)/gains on investments	**(4,640)**	94,517
Closing fair value	**1,195,581**	1,138,793

All investments are in ordinary shares listed on the London Stock Exchange unless otherwise stated on pages 14 to 16.

Gains/(losses) on investments:		
Realised gains on sales	**186,289**	150,295
Decrease in fair value gains on investments	**(99,157)**	(174,923)
Net gains/(losses) on investments	**87,132**	(24,628)

Notes to the Financial Statements

9 Investments *(continued)*

All investments are Level A assets under the definition of FRS 102, other than two investments that have been fair valued at £nil, namely Kenmare Resources Warrants and International Ferro Metals. The three levels of fair value hierarchy are:

Level A reflects quoted prices for identical instruments in active markets.

Level B reflects prices of a recent transaction for identical instruments.

Level C reflects valuation techniques based on observable market data or non-observable data.

10 Debtors

	2015 £'000	2014 £'000
Investment income receivable	**2,633**	2,197
Amounts due from brokers	**–**	436
Taxation recoverable	**59**	–
Other debtors	**33**	37
	2,725	2,670

11 Creditors: Amounts falling due within one year

	2015 £'000	2014 £'000
Amounts due to brokers	**293**	6
Other creditors	**217**	203
	510	209

12 Creditors: Amounts falling due after more than one year

	2015 £'000	2014 £'000
Bank debt facility	**7,000**	**34,250**
Less: Unamortised costs	**(58)**	**(98)**
	6,942	**34,152**

Borrowing facilities

On 1 May 2014, the Company entered into a three year unsecured £125 million Facility Agreement with The Royal Bank of Scotland plc. A 0.10% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 0.80% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate of 0.25% per annum.

The main covenant under the facility requires that, at every month end, total borrowings shall not exceed 25% of the Company's total adjusted gross assets. There were no breaches of the covenants during the year. As at 31 December 2015, total borrowings represented 0.6% of total adjusted gross assets (as defined by Facility Agreement). The current facility is due to expire on 15 June 2017.

13 Share Capital

	2015		2014	
	No. of Shares	**£'000**	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**95,023,792**	**950**	95,344,792	953

During the year, the Company bought in and cancelled 321,000 shares (2014: 38,000) at a total cost of £3,675,000 (2014: £403,000). No shares have been bought back for cancellation between 31 December 2015 and 27 January 2016.

Notes to the Financial Statements

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2013	954	34	176,703	910,616	49,818	1,138,125
Net gains on sale of investments	–	–	–	150,295	–	150,295
Movement in fair value adjustment	–	–	–	(174,923)	–	(174,923)
Cost of investment transactions	–	–	–	(3,346)	–	(3,346)
Management fees charged to capital	–	–	–	(5,399)	–	(5,399)
Finance costs charged to capital	–	–	–	(482)	–	(482)
Special dividend taken to capital	–	–	–	291	–	291
Revenue return attributable to equity shareholders	–	–	–	–	25,977	25,977
Equity dividends paid	–	–	–	–	(22,795)	(22,795)
Purchase of Ordinary Shares	(1)	1	(403)	–	–	(403)
At 31 December 2014	953	35	176,300	877,052	53,000	1,107,340
Net gains on sale of investments	–	–	–	186,289	–	186,289
Movement in fair value adjustment	–	–	–	(99,157)	–	(99,157)
Cost of investment transactions	–	–	–	(3,890)	–	(3,890)
Management fees charged to capital	–	–	–	(5,472)	–	(5,472)
Finance costs charged to capital	–	–	–	(403)	–	(403)
Special dividend taken to capital	–	–	–	1,462	–	1,462
Revenue return attributable to equity shareholders	–	–	–	–	33,349	33,349
Equity dividends paid	–	–	–	–	(23,964)	(23,964)
Purchase of Ordinary Shares	(3)	3	(3,675)	–	–	(3,675)
At 31 December 2015	**950**	**38**	**172,625**	**955,881**	**62,385**	**1,191,879**

15 Net asset value per share

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

	2015	2014
Net assets attributable	**£1,191,879,000**	£1,107,340,000
Ordinary Shares in issue at the end of year	**95,023,792**	95,344,792
Net asset value per Ordinary Share	**1,254.30p**	1,161.41p

16 Interest and Finance Costs Paid

	2015 £'000	2014 £'000
Interest/non-utilisation costs on bank debt facility	**(638)**	(738)
Arrangement fee paid in connection with the renewal of the bank facility	**–**	(125)
	(638)	(863)

Notes to the Financial Statements

17 Analysis of changes in net debt

	Net debt at 1 January 2015 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2015 £'000
Cash at bank	238	787	–	1,025
Bank debt facility	(34,250)	27,250	–	(7,000)
Bank debt facility fee (see note 12)	98	–	(40)	58
	(33,914)	28,037	(40)	(5,917)

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 14 to 16), cash balances, bank debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Bank debt facilities are utilised when the Managers believe it is in the interest of the Company to gear the portfolio. Note 1 sets out the significant accounting policies, including criteria for recognition and the basis of measurement applied for significant financial instruments excluding cash at bank, which is carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main risks that the Company faces arising from its financial instruments are:

(i) *Interest rate risk*, being the risk that the interest receivable/payable and the market value of investment holdings may fluctuate because of changes in market interest rates. The Company's investment portfolio is not directly exposed to interest rate risk.

(ii) *Liquidity risk* is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair values or from the inability to generate cash inflows as required.

(iii) *Credit risk* is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

(iv) *Market price risk*, is the risk that the market value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding 0.1% as at 31 December 2015 (2014: 0.1%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities.

The Company has a bank debt facility of £125,000,000 of which £7,000,000 was drawn down as at 31 December 2015 (2014: debt facility of £125,000,000, of which £34,250,000 was drawn down). Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had been 1% point higher at 31 December 2015, the impact on the profit or loss and therefore Shareholders' funds would have been negative £70,000 per annum (2014: negative £342,000). If LIBOR and the bank base rate had been 0.5% point lower at 31 December 2015, the impact on the profit or loss and therefore Shareholders' funds would have been a positive £35,000 per annum (2014: positive £171,000). There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities, which, if necessary, can be sold to meet funding requirements. Short term funding flexibility can be achieved through the use of bank debt facilities. The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the bank debt facility.

(iii) Credit risk

The Company invests in UK equities traded on the London Stock Exchange. Investment transactions are carried out with a number of FCA regulated brokers with trades typically undertaken on a delivery versus payment basis and on a short settlement period.

The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the custodian may be delayed or limited. The Board and the Depositary monitor the Company's risk by reviewing Northern Trust's

18 Financial instruments *(continued)*

(iii) Credit risk (continued)

credit ratings and their internal control report. Cash at bank is held with reputable banks with acceptable external credit ratings. Furthermore the Company's Depositary is contractually liable to the Company for the loss of any assets entrusted to it.

The exposure to credit risk at the year-end comprises:

	2015 £'000	2014 £'000
Investment income receivable	**2,633**	2,197
Amounts due from brokers	**–**	436
Cash at bank	**1,025**	238
	3,658	2,871

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the investment managers in pursuance of the investment objective. Further information on the investment portfolio is set out in the Managers' Report on pages 8 to 12. It is not the Managers' policy to use derivatives or hedging instruments to manage market price risk.

If the investment portfolio valuation fell by 20% at 31 December 2015, the impact on the profit or loss and therefore Shareholders' funds would have been negative £239.1m (2014: negative £227.8m). If the investment portfolio valuation rose by 20% at 31 December 2015, the impact on the profit or loss and therefore Shareholders' funds would have been positive £239.1m (2014: £227.8m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

As at 31 December 2015, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio consisted of investments, other than two investments that have been fair valued at £nil (see note 9), valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Contractual maturity analysis for financial instruments

(All in £'000)	Due or due no later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
As at 31 December 2015						
Liabilities:						
Bank debt facility	**40**	**–**	**–**	**7,000**	**–**	**7,040**
Unamortised costs	**–**	**–**	**–**	**(58)**	**–**	**(58)**
Amounts due to brokers	**293**	**–**	**–**	**–**	**–**	**293**
Other creditors	**105**	**37**	**35**	**–**	**–**	**177**
Total liabilities	**438**	**37**	**35**	**6,942**	**–**	**7,452**

Contractual maturity analysis for financial instruments

(All in £'000)	Due or due no later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
As at 31 December 2014						
Liabilities:						
Bank debt facility	73	–	–	34,250	–	34,323
Unamortised costs	–	–	–	(98)	–	(98)
Amounts due to brokers	6	–	–	–	–	6
Other creditors	38	92	–	–	–	130
Total liabilities	117	92	–	34,152	–	34,361

Notes to the Financial Statements

18 Financial instruments *(continued)*

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2015

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	**–**	**134**	**288**	**7,558**	**–**	**7,980**
Amounts due to brokers	**–**	**293**	**–**	**–**	**–**	**293**
Other creditors	**–**	**142**	**35**	**–**	**–**	**177**
	–	**569**	**323**	**7,558**	**–**	**8,450**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2014

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	–	239	506	35,230	–	35,975
Amounts due to brokers	–	6	–	–	–	6
Other creditors	–	130	–	–	–	130
	–	375	506	35,230	–	36,111

Capital Management Policies and Procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and
– to support the Company's objective.

This is achieved through the appropriate balance of equity capital and gearing. Further details can be found in the Strategic Report.

19 Related Party Transactions

Directors' fees and their shareholdings are detailed in the Directors' Remuneration Report on pages 30 and 31. There were no matters requiring disclosure under S412 of the Companies Act 2006.

20 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2015 (2014: nil). The Company may be able to recover further amounts in respect of VAT charged on investment management fees. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-fifth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 1 March 2016 at 6.00 p.m. for the following purposes:

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the Report and Accounts for the year ended 31 December 2015 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2015 be approved.
3. That a special dividend of 2.75p per share and a final dividend of 17.85p per share be declared.
4. That Mr S P Trickett be re-elected as a Director.
5. That Mr D J Jeffcoat be re-elected as a Director.
6. That Mr R A Rae be re-elected as a Director.
7. That Mrs J Le Blan be re-elected as a Director.
8. That Mrs P M Hay-Plumb be re-elected as a Director.
9. That Deloitte LLP be re-appointed as Auditor.
10. That the Directors be authorised to fix the remuneration of the Auditor for the year to 31 December 2016.

To consider and, if thought fit, pass the following Special Resolution:

11. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 1p each in the capital of the Company ("Shares"), provided that:
    (a) the maximum number of Shares hereby authorised to be purchased shall be 14,244,066 (or if less, 14.99% of the issued share capital of the Company on the date on which this resolution is passed);
    (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;
    (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2017 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2017, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

Aberforth Partners LLP, *Secretaries*

27 January 2016

Notes to the Notice of the Annual General Meeting

1. **Attending the Annual General Meeting in person**

   A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote on their behalf. Such a proxy need not also be a member of the Company.

   To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.00 p.m. on 26 February 2016 (or, if the Annual General Meeting is adjourned, at 6.00 p.m. on the day two days (excluding non-working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

2. **Appointment of Proxy**

   A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the Registrar's web site at www.capitashareportal.com and follow the instructions on screen.

   You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Registrar of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 1 March 2016 and any adjournment(s) thereof by using the procedures described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10), no later than 48 hours before the time appointed for the meeting.

3. **Questions and Answers**

   Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question which is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question, within a reasonable period of days after the conclusion of the AGM.

4. **Total Voting Rights**

   As at 27 January 2016, the latest practicable date prior to publication of this document, the Company had 95,023,792 Ordinary Shares in issue with a total of 95,023,792 voting rights.

5. **Information on the Company's website**

   In accordance with section 311A of the Companies Act 2006, this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website www.aberforth.co.uk.

6. **Nominated Persons**

   Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between such person and the shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered shareholder as to the exercise of voting rights.

7. **Audit concerns**

   The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the registered address of the Company.

Shareholder Information

Introduction

Aberforth Smaller Companies Trust plc is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2015, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

Shareholder register enquiries

All administrative enquiries relating to Shareholders such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or requests to be placed on a mailing list should be addressed to the Company's Registrar:

Shareholder Services Department, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. Tel: 0371 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday to Friday). Fax: 01484 600 911. Email: shareholder.services@capitaregistrars.com. Website: www.capitaregistrars.com.

Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's Registrar, whose address is given above, to pay them directly into a bank account; tax vouchers are then mailed to Shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. The Company also operates a Dividend Re-investment Plan to allow Shareholders to use their cash dividends to buy shares easily and at a low cost via the Company's Registrar from whom the necessary forms are available.

Sources of further information

The prices of the Ordinary Shares are quoted daily in the Financial Times, The Herald, The Times and The Scotsman. Company performance and other relevant information are available on the Managers' website at www.aberforth.co.uk and are updated monthly. The price, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.FT.com and www.theaic.co.uk.

How to invest

The Company's Ordinary Shares are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker, by asking a professional adviser to do so, or through most banks. The Company's Managers, Aberforth Partners LLP, do not offer any packaged products such as ISAs, PEPs, Savings Schemes or Pension Plans.

Security Codes

	SEDOL	Bloomberg	Reuters	GIIN
Ordinary Shares of 1p	0006655	ASL LN	ASL.L	U6SSZS.99999.SL.826

Continuation Vote

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2017 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

Retail Distribution

The Company currently conducts its affairs, and intends to continue to conduct its affairs, so that its Ordinary Shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.

The Company's Ordinary Shares are excluded from the FCA's restrictions that apply to non-mainstream investment products because they are shares in an investment trust.

ISA Status

The Company's Ordinary Shares are eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account (ISA).

AIC

The Company is a member of The Association of Investment Companies which produces a detailed Monthly Information Service on the majority of investment trusts. This can be obtained by contacting The Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY Website: www.theaic.co.uk; Tel: 020 7282-5555.

Shareholder Information

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage is required to be made available to Shareholders. The Company's maximum and actual leverage levels as at 31 December 2015 are shown below.

	2015		2014	
Leverage Exposure (refer to the Glossary)	**Commitment Method**	**Gross Method**	Commitment Method	Gross Method
Maximum limit	**2.00:1**	**2.00:1**	2.00:1	2.00:1
Actual	**1.00:1**	**1.00:1**	1.03:1	1.03:1

Furthermore, in accordance with the Directive, the AIFM's remuneration policy is available on request from Aberforth Partners LLP and numerical disclosures in respect of the AIFM's first relevant reporting period (year ended 30 April 2016) will be made available in due course.

Glossary

Active share ratio is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the stocks in the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%. Active Share is addressed in *"How Active Is Your Fund Manager?"* (Antti Petajisto and Martijn Cremers Yale School of Management, 2009).

Discount is the amount by which the stockmarket price per Ordinary Share is lower than the Net Asset Value per Ordinary Share. The discount is normally expressed as a percentage of the Net Asset Value per Ordinary Share.

Gearing represents borrowings by an investment trust to buy investments if the Managers expect stockmarkets to rise, with a view to making a greater return on the money borrowed than the cost of the borrowing. If stockmarkets rise, gearing can increase the Company's returns, but, if they fall, losses will be greater.

Leverage for the purposes of the AIFM Directive, is any method which increases the Company's exposure to stockmarkets whether through borrowings, derivatives or any other means. It is expressed as a ratio of the Company's exposure to its Net Asset Value. In summary, the gross method measures the Company's exposure before applying hedging or netting arrangements. The commitment method allows certain hedging or netting arrangements to be offset. ASCoT has no hedging or netting arrangements.

Market Capitalisation of a Company is calculated by multiplying the stockmarket price per Ordinary Share by the total number of Ordinary Shares in issue.

Net Asset Value, also described as Shareholders' funds, is the value of total assets less liabilities. Liabilities for this purpose include borrowings as well as current liabilities. The Net Asset Value per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

Net Asset Value Total Return represents the theoretical return on Shareholders' funds per share assuming that dividends paid to Shareholders were reinvested at the Net Asset Value at the time the shares were quoted ex dividend.

Ongoing Charges is the total cost of investment management fees and other operating expenses as a percentage of the average published net asset value over the period (calculated per AIC guidelines).

Premium is the amount by which the stockmarket price per Ordinary Share exceeds the Net Asset Value per Ordinary Share. The premium is normally expressed as a percentage of the Net Asset Value per Ordinary Share.

Shareholder Information

Financial Calendar

Results	Half year to 30 June announced	July
	Full year to 31 December announced	January
Ordinary Share Dividends	*Interim*	
	Ex dividend	July/August
	Payable	August
	Final	
	Ex dividend	February
	Payable	March
Interim Report	Published	July
Annual Report and Accounts	Published	January/February
Annual General Meeting		March
Publication of Net Asset Values		Daily (via the Managers' website)

Corporate Information

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www.aberforth.co.uk

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Shareholder Solutions
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