Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2024

The Company

Aberforth Smaller Companies Trust plc ("the Company" or "ASCoT") is an investment trust. Its ordinary shares are listed on the premium segment of the Official List of the Financial Conduct Authority and traded on the London Stock Exchange. The Company has appointed Aberforth Partners LLP as the investment managers ("the Managers").

Investment Objective

The investment objective of the Company is to achieve a net asset value total return (with dividends reinvested) greater than that of the Deutsche Numis Smaller Companies Index (excluding Investment Companies) ("DNSCI (XIC)") over the long term.

Investment Policy

The Company aims to achieve its objective by investing in small UK quoted companies. The Company's Investment Policy is set out in its Annual Report.

Contents

From 1 January 2024, the Numis Smaller Companies Index (excluding Investment Companies) was renamed the Deutsche Numis Smaller Companies Index (excluding Investment Companies).

All data throughout this Half Yearly Report are to, or as at, 30 June 2024 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2024

Total Return Performance	%
Net Asset Value per Ordinary Share[1,5]	**13.1**
Deutsche Numis Smaller Companies Index (excluding Investment Companies)[2,5]	**5.4**
Ordinary Share Price[3,5]	**12.9**

	30 June 2024	31 December 2023	30 June 2023
Shareholders' Funds[4]	**£1,426m**	£1,297m	£1,219m
Market Capitalisation[5]	**£1,272m**	£1,163m	£1,044m
Actual Gearing employed[5]	**6.5%**	5.1%	3.6%
Net Asset Value per Ordinary Share[4]	**1,694.73p**	1,536.73p	1,438.50p
Ordinary Share price[5]	**1,512.00p**	1,378.00p	1,232.00p
Ordinary Share discount[5]	**10.8%**	10.3%	14.4%

Cumulative Returns (%) Period to 30 June 2024	NAV[1,5]	Index[2,5]	Share Price[5]
1 Year	21.9	14.5	27.6
3 Years	8.9	-1.0	8.9
5 Years	44.1	26.1	45.6
10 Years	84.7	70.9	93.4
15 Years	390.9	346.5	406.6
Since inception on 10 December 1990	4,383.3	2,126.9	4,069.0

1 Represents net asset value return with dividends reinvested.

2 Represents the return on the DNSCI (XIC) with dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2024 consisted of 353 companies, the largest market capitalisation of which was £1.7 billion and the aggregate market capitalisation of which was £143 billion.

3 Represents Ordinary Share price return with dividends reinvested.

4 UK GAAP Measure (refer to the glossary in the 2023 Annual Report).

5 Alternative Performance Measures (refer to the glossary in the 2023 Annual Report).

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

Chairman's Statement

Review of performance

ASCoT's net asset value total return in the six months to 30 June 2024 was +13.1%, while its share price total return was +12.9%. The difference between the two numbers reflected a slight widening of the discount of the share price to the net asset value per share. This was a particularly good performance for a six month period and compares well with the +5.4% total return from the benchmark index, the Deutsche Numis Smaller Companies Index (excluding investment companies (DNSCI (XIC)). Large UK companies, represented by the FTSE All-Share, recorded a +7.4% return.

So strong an investment performance was not the obvious outcome against a background of wars, elections and recessions, but markets move to their own beat. As 2023 drew to a close, valuations of small UK quoted companies were so low that it seemed something had to give. The immediate challenge to the despondency has come in the form of takeover activity. Bigger companies, overseas companies and private equity have spotted the opportunity in small UK quoted companies even as institutional and retail investors lose interest. The other important development has been a further decline in the inflation rate. This has inspired the market to look ahead to the prospect of lower interest rates and beyond that to an upturn in economic activity.

The Managers' Report explains how this investment environment has affected ASCoT's performance, as well as setting out the portfolio's positioning and valuation.

Dividends

ASCoT enjoyed a very strong income performance in 2023. Dividend receipts from investee companies were the highest ever and one third above their 2019 level before the pandemic. For 2024, a modest decline in underlying dividend receipts (i.e. excluding special dividends) is currently expected. This reflects the recession in the second half of last year and weaker trading conditions encountered by investee companies.

Notwithstanding this cyclical weakness, the Board expects to be able to meet its ambition to grow ASCoT's 2024 full year dividend above the rate of inflation. We take confidence both from the Managers' dividend estimates and from ASCoT's healthy revenue reserves. These reserves amounted to 80.1p per Ordinary Share at the start of the year, equivalent to roughly 1.9 times last year's underlying dividend. On the basis of current forecasts, we do not anticipate using these reserves in respect of 2024.

The Board is pleased to announce an interim dividend of 13.60p per Ordinary Share. This is 5.0% higher than the previous year's 12.95p. As was the case last year, this rate of increase is set above the anticipated year end inflation rate, which is based on an average of forecasts aggregated by Bloomberg. Should these forecasts prove inaccurate, it would be the Board's intention to use the final dividend to meet the ambition to grow ASCoT's full year underlying dividend (i.e. excluding any special dividend declared) in real terms.

The interim dividend will be paid on 29 August 2024 to Shareholders on the register at the close of business on 9 August 2024. The ex-dividend date is 8 August 2024. The Company operates a Dividend Reinvestment Plan, details of which are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Chairman's Statement

Gearing

ASCoT benefits from a £130m credit facility from The Royal Bank of Scotland International Limited, which runs to 15 June 2026. The facility is deployed tactically to take advantage of periods of equity market stress, with a view to increasing investment returns for Shareholders. ASCoT has been geared on four occasions over its 33 year history. The present opportunity arose amid the pandemic in 2020, since when gearing has enhanced returns. Because portfolio valuations remain depressed, the Board and Managers believe it appropriate that ASCoT remains geared. Influenced by the timing of M&A activity within the portfolio, the gearing ratio has varied through the first half of 2024. At 30 June 2024, £98m of the credit facility was deployed and the gearing ratio was 6.5%.

Share buy-back

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

In the six months to 30 June 2024, 275,000 shares were bought back and cancelled. The total value of these repurchases was £3.7m, on an average discount of 12%. Since 2008, ASCoT's share buy-backs have totalled £161m and added £24m of value to Shareholders.

Annual General Meeting (AGM)

All resolutions at the AGM held on 5 March 2024 were passed, including approval for the renewal of authority to buy back up to 14.99% of ASCoT's Ordinary Shares.

Conclusion

Financial markets are never boring. The revaluation of those companies enabling artificial intelligence (AI) has been extraordinary, exemplified by Nvidia as it vies to be the world's most valuable company. Its staggering ascent has been a challenge to the valuation of other companies and indeed asset classes. The effect has been akin to that of a black hole, sucking liquidity and interest away from other investment opportunities. Whether Nvidia and the others go on to justify investors' confidence remains to be seen – markets do tend to overshoot in both directions.

Small UK quoted companies are a case in point. At the end of 2023 the market was deeply despondent about their prospects. This left their valuations vulnerable to good news, or at least less bad news, which has come in the form of numerous bids for UK companies and improving inflation reports. It is most encouraging that ASCoT has taken advantage of this renewed interest in the asset class to start 2024 with good investment returns.

Of course, it would be unwise to expect the stockmarket to deliver the further reappraisal of smaller companies in an uninterrupted fashion. After all, a clear lesson from the last couple of years is the unpredictability of inflation data, which has affected monetary policy and economic

Chairman's Statement

activity. To this we should add the on-going uncertainties at the political level. The decisive election outcome should improve perceptions of the UK, but the actions of the new government remain to be determined. Meanwhile, France's election highlights political strain within the EU and the American presidential election looms.

However, the Board remains optimistic about ASCoT's prospects for several reasons. Our discussions with the Managers and their reports make clear that ASCoT invests in good businesses – they are well run, they have strong balance sheets, and they grow their profits and dividends over time. Additionally, despite the improvement of the first half of the year, valuations remain attractive both in relation to history and to equities in a broader international context. Furthermore, the Managers are unwaveringly committed to their investment approach and value investment philosophy, a consistency which has served ASCoT well over its 33 years even as the markets ebb and flow.

Richard Davidson
Chairman

26 July 2024
richard.davidson@aberforth.co.uk

Managers' Report

Investment background

Over the six months to 30 June 2024, ASCoT's net asset value total return was +13.1%. This compares with a +5.4% return from ASCoT's benchmark, the DNSCI (XIC), and with a +7.4% return from large companies in the form of the FTSE All-Share.

This good start to 2024 has its roots in the very low valuations ascribed by the stockmarket to small UK quoted companies as 2023 drew to a close – with sentiment so negative, it was never going to take much to bring improved investment performance. The first half has indeed brought encouraging developments for the UK's economy, its politics and its stockmarket.

- On the economic front, recession has been a persistent concern over the past two years. Higher inflation and interest rates threatened a slowdown in domestic activity, which became noticeable in the trading statements of smaller companies from the second quarter of 2023. We now know that there was indeed a recession in the second half of last year. It was, though, a mild and short downturn, much less severe than some commentators had expected. Growth remains subdued, but, with the rate of inflation easing, there is the prospect of lower interest rates later in the year. In turn, more accommodating monetary policy should herald more favourable trading conditions for companies and an upturn in the profit cycle.
- To many outside observers, the UK's political situation since the EU referendum has been baffling. Perceptions of political dysfunction have discouraged investment in UK equities and affected their valuation relative to other markets. However, the UK's seeming monopoly on political uncertainty is becoming less clearcut. On the one hand, the General Election has delivered a government with a decisive majority that should not be in thrall to the more extreme elements of the ruling party. On the other hand, the politics of several other western democracies threaten to become less certain. The EU elections have seen an upswing in support for populist parties and have precipitated a potentially destabilising parliamentary election in France. Meanwhile, the US faces its own democratic test later in the year, with the outcome still far from certain.
- Concerns that the UK stockmarket may not be fit for purpose intensified in 2023 when Arm, the semiconductor business, chose to list in the US. Before that, there was a broadening recognition by government and regulators that the UK's capital markets could be improved. A slew of initiatives – such as the Edinburgh Reforms, the Mansion House Compact, the FCA's review of listing rules and consultation for a UK ISA – has followed. It is easy to be sceptical about each of these in isolation, but official recognition of the issue and the general direction of travel are encouraging. However, taking a step back, it is worth reflecting on whether the UK stockmarket has a particular problem. After all, de-equitisation and the loss of companies to private capital have been features of many markets for two decades. The unusual stockmarket in the global context has not been the UK, but the US with the extraordinary and incredible valuations accorded to a small number of technology giants. From their daily interactions with the UK stockmarket, the Managers believe that it can value companies fairly over time. The valuation process may be complicated by concerns about the economic cycle and by politics, but these ebb and flow and currently enhance the opportunity in UK equities.

As equity investors mull this opportunity, the first half of 2024 brought clear evidence of how gaps between stockmarket valuations and companies' intrinsic value can be bridged – M&A activity continued at an elevated rate. Larger companies, overseas companies and private equity have identified the opportunity in depressed UK valuations and are emerging as the marginal buyers of UK equities.

Managers' Report

Over the six months, the investment universe saw agreed bids for seven companies announced and there were numerous approaches for other companies. Of the agreed deals, ASCoT had holdings in three, which together accounted for around one third of ASCoT's out-performance against the DNSCI (XIC) in the period. Throughout its history, ASCoT's performance tends to have benefited from M&A – part of the Managers' investment approach is to consider who might want to own a company if the stockmarket proves unwilling to value it appropriately. However, given how low valuations are at present, there is a heightened risk that companies are sold too cheaply. Some company boards, influenced by the pervasive gloom about the UK and sometimes encouraged by other Shareholders, have been too quick to yield to takeover interest.

Where takeover valuations fall short of their determination of intrinsic value, the Managers vote against the proposed deals or engage to seek improved terms from the acquirers. However, the chance of a better outcome for Shareholders is improved by timely consultation by boards of target companies before they agree to a deal. In order to engage constructively, the Managers are prepared to be taken inside for extended periods. To be clear, the purpose of these engagement efforts is not to protect the UK stockmarket but to improve investment results for ASCoT's Shareholders.

Analysis of performance and portfolio characteristics

Over the six months to 30 June 2024, ASCoT's net asset value total return was +13.1% and the DNSCI (XIC)'s was +5.4%. An analysis of the difference between the two numbers is shown in the table below. The most significant influence on the performance attributable to the portfolio of investments was M&A activity: as noted above, the three companies that announced agreed bids in the period accounted for 240 basis points of relative performance.

For the six months ended 30 June 2024	Basis points
Attributable to the portfolio of investments, based on mid prices	
(after transaction costs of 8 basis points)	**746**
Movement in mid to bid price spread	11
Cash/gearing	47
Purchase of ordinary shares	4
Management fee	(36)
Other expenses	(3)
Total attribution based on bid prices	**769**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 13.12%; Benchmark Index = 5.43%; difference is 7.69% being 769 basis points).

The next table sets out a series of characteristics of both the portfolio and the DNSCI (XIC). The paragraphs that follow provide context and explanation for these characteristics and for ASCoT's performance in the first half of 2024.

Managers' Report

Portfolio characteristics	30 June 2024 ASCoT	30 June 2024 DNSCI (XIC)	30 June 2023 ASCoT	30 June 2023 DNSCI(XIC)
Number of companies	**77**	**339**	78	339
Weighted average market capitalisation	**£624m**	**£986m**	£528m	£945m
Weighting in "smaller small" companies*	**56%**	**27%**	60%	31%
Portfolio turnover over prior 12 months	**19%**	**N/A**	21%	N/A
Active share	**73%**	**N/A**	76%	N/A
Price earnings (PE) ratio (historical)	**10.2x**	**13.5x**	7.1x	10.8x
Dividend yield (historical)	**3.8%**	**3.4%**	4.2%	3.5%
Dividend cover (historical)	**2.6x**	**2.2x**	3.4x	2.6x

*"Smaller small" companies are members of the DNSCI (XIC) that are not also members of the FTSE 250

Style & size

The Managers' value investment style has been helpful to ASCoT's returns since the start of the pandemic rally in late 2020. Higher inflation and interest rates have contributed to a more favourable environment for the value investor. So far in 2024, the London Business School's analysis of style effects within the DNSCI (XIC) suggests little difference between the performances of the index's value and growth cohorts, with the latter very slightly ahead of the former. This would imply that style did not have a meaningful effect on ASCoT's relative returns in the six month period.

Size positioning relative to the DNSCI (XIC) was more helpful. ASCoT retains its higher exposure to "smaller small" companies. FTSE 250 stocks represent 73% of the total value of the DNSCI (XIC) but only 44% of ASCoT's portfolio. The Managers' preference for the smaller non FTSE 250 companies is motivated by their lower valuations. Over the six months to 30 June 2024, "smaller small" companies out-performed the FTSE 250, which indicates a boost to ASCoT's return from its size positioning.

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the Tracked Universe, which is a subset of the DNSCI (XIC). It comprises 227 companies, which the Managers follow closely and which together represent 98% by value of the total DNSCI (XIC) index.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2024	34%	45%	14%	7%
Tracked universe: 2024	37%	39%	17%	6%

*Includes loss-makers and lenders

Notwithstanding the recession in the second half of 2023, small companies' balance sheets remain in good condition. The table above shows that over one third of both the investment universe and ASCoT's portfolio is represented by companies with net cash on their balance sheets. This resilience has allowed companies to continue to invest despite the tougher trading conditions. The ratio of capital expenditure to depreciation for companies with December year ends, which reported their 2023 results in the first quarter of 2024, was a healthy 1.2x. Balance sheet strength has also contributed to an upsurge in share buy-back activity. Fourteen of ASCoT's holdings repurchased shares in the first half of 2024, as boards sought to take advantage of depressed stockmarket valuations.

Managers' Report

Income

The table below divides ASCoT's 77 holdings in categories that are determined by each company's most recent dividend action. The balance of the analysis is positive, with the most populated category being Increased Payers.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returner
14	15	12	34	2

The main change compared with twelve months ago is the higher number of Cutters. This reflects the recession and more challenging trading conditions in the second half of 2023. Consistent with this, it is likely that ASCoT's dividend income from its holdings will be lower in 2024 than it was in 2023. However, last year's dividend experience was extremely strong and so, on the basis of current estimates for the rest of the year, it is likely that the Board will be able to meet its dividend ambition and have the option to strengthen revenue reserves further.

The average historical yield of ASCoT's 77 holdings was 3.8% at 30 June 2024, which is down from 4.2% twelve months earlier. Dividend cover has declined from 3.4x to 2.6x. This is because dividends have proved more resilient than have profits through the recent downturn. Such resilience reflects the strong balance sheets previously described. It is also influenced by a general appreciation among investee company boards of the importance of dividends to their investors, particularly when broad interest in UK equities is at a low ebb.

ASCoT's gearing

At 30 June 2024, ASCoT's gearing ratio was 6.5%, up from 5.1% at the start of the year. The ratio has oscillated through the period with share price movements and as proceeds from holdings subject to takeovers have been received.

ASCoT employs gearing tactically to take advantage of periods of stress in financial markets. The current instance of gearing is the fourth since launch in 1990 and stems from the pandemic in 2020. Since then, gearing has enhanced investment returns, but valuations of smaller companies remain very attractive. As long as the opportunity embedded in these valuations remains, it is appropriate for ASCoT to be geared.

Active share

Active share is a measure of how different a portfolio is from an index. The ratio is calculated as half of the sum of the absolute differences between each stock's weighting in the index and its weighting in the portfolio. The higher a portfolio's active share, the higher its chance of performing differently from the index, for better or worse. The Managers target an active share ratio of at least 70% for ASCoT's portfolio compared with the DNSCI (XIC). At 30 June 2024, it stood at 73%.

Value roll and portfolio turnover

The main influence on ASCoT's portfolio turnover in any period is usually the stockmarket's appetite for small UK quoted companies. If prices and valuations are rising, the upsides to the Managers' target prices are likely to be narrowing. All else being equal, this would encourage the rotation of ASCoT's capital from companies with lower upsides to those with higher upsides. The Managers' term this dynamic the "value roll" and it has made an important contribution to ASCoT's capital and income returns over the years. It follows that periods of higher portfolio turnover are often associated with strong returns for ASCoT.

Managers' Report

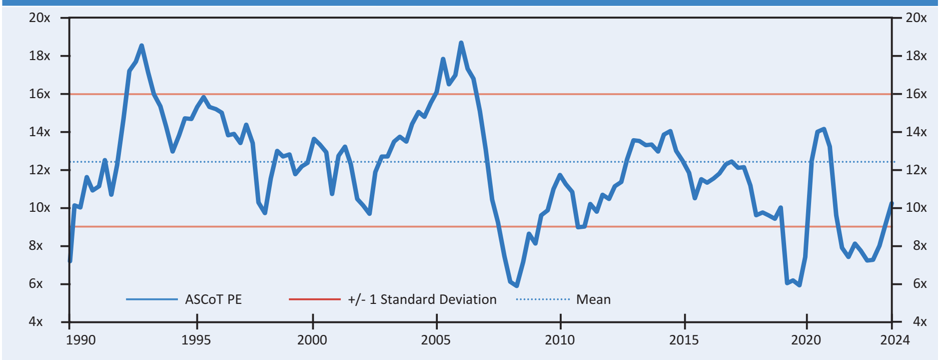
Over the twelve months to 30 June 2024, portfolio turnover, defined as the lower of purchases and sales divided by average portfolio value, was 19%. This is below the long term average of 34%. Notwithstanding ASCoT's positive return in the six month period, this suggests that there was less opportunity for "value roll" than usual. This is another symptom of the deep under-valuation of small UK quoted companies – if the stockmarket does not reflect their true value, there is every incentive to maintain the position.

Valuations

The valuations of UK equities in general and small UK quoted companies in particular remain attractive. The Managers' Report published in January described how ASCoT benefited from three layers of valuation advantage: (1) the PE ratio of UK equities is lower than that of the rest of the world; (2) the PE of smaller companies is lower than that of large UK companies; (3) the PE ratio of ASCoT's portfolio is lower than that of small UK quoted companies. This triple discount was still in place at 30 June 2024, but, importantly, there are signs that a re-rating is under way.

The chart below depicts the historical PE ratio of ASCoT's portfolio. At the start of 2024, the PE was 7.9x, a rating consistent with recession. The previous three occasions on which the PE has reached this level have come with economic downturns: the early 1990s recession at the left of the chart, the global financial crisis in the middle and the pandemic recession in 2020. On each occasion, the de-rating of the portfolio's companies has been followed by a re-rating, as the stockmarket moves from worrying about falling earnings to enthusing about earnings recovery. The chart indicates that we are in the early stages of a similar recovery, with the average PE of the portfolio having risen to 10.2x at 30 June 2024.

Historical PE ratio of ASCoT



Both the numerator and the denominator of the PE ratio contributed to its rise over the first six months of 2024. Share prices have risen even as earnings reported by companies have declined – data from London Business School suggest that small company profits declined by 8% in 2023. The stockmarket looks ahead and, gaining confidence from easing inflation and a likely peak in interest rates, is starting to anticipate a turn in the profits cycle. The opportunity for recovery in profits comes from both the impact of last year's recession and the pandemic's lingering effects, such as the extensive supply chain problems.

Managers' Report

As the chart suggests, there is scope for a further re-rating as profits recover. Of the three earlier recessions in ASCoT's lifetime, one – the early 1990s downturn – was caused by inflation and the monetary policy reaction. The table below shows how the recession played out and its impact on small UK quoted companies.

	1990	1991	1992	1993	Cumulative 1991-93
UK economic context					
GDP YoY	+0.6%	-1.4%	+0.2%	+2.3%	+1.1%
CPI YoY	+7.0%	+7.5%	+4.2%	+2.4%	+15.9%
Year end base rates	13.9%	10.4%	6.9%	5.4%	-
DNSCI (XIC) experience*					
Year end PE ratio	8.2x	11.3x	13.9x	18.6x	-
Implied earnings growth	+1.8%	-13.7%	-13.0%	+6.2%	-20.3%
Total return	-23.5%	+18.9%	+7.1%	+41.5%	+80.2%

*Taken or calculated from London Business School data

The table shows that small company share prices fell in 1990 as the market anticipated the recession in 1991 and two years of sharp declines in earnings. However, even as the profit downturn played out, share prices started to rise as the market was encouraged by lower interest rates to anticipate an upturn in earnings. That upturn duly arrived in 1993, which precipitated further share prices gains. Over the period, small company valuations took the strain as the year end PE ratio rose from 8.2x to 18.6x.

It is tempting to draw parallels between the early 1990s experience and the current situation. In 2022, the total return from small companies was -17.9% and the PE was 8.1x at the year end. In 2023, the recessionary conditions meant that earnings declined by 8.2%, but the total return from the asset class turned positive as the market started to anticipate recovery and took the year end PE ratio up to 12.8x. In 2024 so far, the total return has again been positive, even though earnings are likely to be flat to slightly down over the year as a whole. The market again seems enthused by the prospect of interest rate cuts, which in due course might bring an earnings recovery in 2025.

Clearly, much could change over coming months and there is no guarantee that the events of the early 1990s will be replicated. However, the experience then serves as a useful reminder of how the market gets to grips with inflection points in the economic cycle and looks through prevailing or near term gloom.

Outlook and conclusion

Around the world, financial markets remain focused on the US interest rate cycle. US economic data released through the first half of the year proved more robust than anticipated – disinflation is happening, but uncertainty about the future path of inflation remains higher than in the years before the pandemic. This has contributed to a delay to the first cut to US interest rates. Until the Federal Reserve moves, it is unlikely that other central banks will be able to ease monetary policy in a meaningful fashion. Meanwhile, financial markets are also contending with elevated geopolitical risk. Russia's invasion of Ukraine continues, while Israel and Hamas remain in conflict. Elsewhere, the implications of recent elections and of those to come add to the uncertainty. An additional complication for markets has been the burgeoning fascination for AI. This promises significant productivity benefits for many companies in due course but benefits a very small number of stocks in the near term. Nvidia and its ilk have assumed truly incredible valuations and, with their apparent promise of secular and low risk growth, would appear to be sucking interest from other equities.

This has been an invidious backdrop for many asset classes, small UK quoted companies included. However, such conditions give rise to investment opportunities as the stockmarket inevitably overreacts in both directions. There are several strands to the investment opportunity in front of ASCoT today.

- The valuations of UK assets have attracted a discount since the EU referendum as political uncertainty has deterred investment activity. By giving Labour a convincing majority, the recent election promises a period of greater stability. It will take time to understand their priorities and the impact of their policies on the economy and markets, but it is feasible that the UK could emerge from 2024 with a less uncertain political situation than many of its western peers, which could help the relative valuation of UK assets.
- The companies available to ASCoT in the investment universe have good and well managed businesses. Their balance sheets are strong and in normal economic conditions their profits grow. Using the five years up to the end of 2019, to exclude the pandemic and its aftereffects, small company dividend growth averaged 8% per annum. When the pandemic then hit dividends by one third, they recovered fully in less than two years. Such growth and resilience are not characteristics of poor companies.
- Having endured the downside of an economic slowdown, the market is now contemplating an upturn in the economic cycle. Corporate profitability should benefit as interest rates decline and, contemporaneously, market valuations should also improve as has happened in previous recoveries.
- The on-going high rate of M&A activity is highlighting the attractiveness of UK valuations and the quality of small UK quoted companies. After all, it is unlikely that overseas companies and private equity firms are buying UK companies merely to benefit from a cyclical recovery in profits. The emergence of these M&A buyers, together with the upsurge in share buy-backs by smaller companies, introduces marginal demand from informed buyers for the asset class and mitigates the effect of retail and institutional selling.

It is encouraging that these factors have begun to be recognised in stronger share prices and higher valuations over recent months. The path to a fuller and merited revaluation of the portfolio's holdings is unlikely to be smooth, but ASCoT is well placed to generate good medium and long term investment returns for its Shareholders.

Aberforth Partners LLP
Managers
26 July 2024

Investment Portfolio

Fifty Largest Investments as at 30 June 2024

No.	Company	Valuation £'000	% of Total Net Assets	Business Activity
1	CMC Markets	52,598	3.7	Financial derivatives trading platform
2	Wilmington Group	48,348	3.4	Business publishing & training
3	Morgan Advanced Materials	42,293	3.0	Manufacture of carbon & ceramic materials
4	ZIGUP	40,565	2.8	Van rental
5	Just Group	36,939	2.6	Annuity provider
6	Bakkavor Group	36,619	2.6	Food manufacturer
7	International Personal Finance	33,538	2.3	Home credit provider
8	Vesuvius	33,163	2.3	Metal flow engineering
9	Centamin	32,718	2.3	Gold miner
10	NCC Group	31,332	2.2	IT security
	Top Ten Investments	**388,113**	**27.2**	
11	Mitchells & Butlers	31,219	2.2	Operator of restaurants, pubs & bars
12	Avon Protection	30,843	2.2	Military protection products
13	Crest Nicholson	30,418	2.1	Housebuilding
14	C&C Group	28,642	2.0	Brewer and drinks distributor
15	Conduit Holdings	27,839	1.9	Bermuda based (re)insurer
16	Reach	27,468	1.9	UK newspaper publisher
17	Robert Walters	26,785	1.9	Recruitment
18	Quilter	26,430	1.9	Wealth Management
19	TI Fluid Systems	25,554	1.8	Automotive parts manufacturer
20	Zegona Communications	25,256	1.8	Telecommunications
	Top Twenty Investments	**668,567**	**46.9**	
21	Rathbones Group	24,943	1.8	Private client fund manager
22	Workspace Group	24,888	1.8	Property - rental to small businesses
23	Senior	24,841	1.7	Aerospace & automotive engineering
24	XP Power	24,790	1.7	Power Controls
25	Videndum	24,662	1.7	Photographic & broadcast accessories
26	Galliford Try Holdings	24,649	1.7	Building & infrastructure contractor
27	FirstGroup	24,539	1.7	Bus & rail operator
28	Card Factory	23,395	1.7	Retailing - greetings cards
29	Foxtons	23,235	1.6	Estate Agent
30	Rank Group	21,882	1.5	Multi-channel gaming operator
	Top Thirty Investments	**910,391**	**63.8**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2024

No.	Company	Valuation £'000	% of Total Net Assets	Business Activity
31	Ricardo	21,438	1.5	Environmental & engineering consulting
32	Close Brothers Group	19,553	1.4	Bank, stockbroker & private client fund manager
33	XPS Pensions Group	19,388	1.4	Pension Consultancy
34	Sabre Insurance Group	19,278	1.4	Car insurance
35	Jupiter Fund Management	19,083	1.3	Investment manager
36	EnQuest	18,982	1.3	Oil & gas exploration and production
37	Marstons	18,899	1.3	Pub operator
38	PageGroup	18,806	1.3	Recruitment
39	SIG	18,430	1.3	Specialist building products distributor
40	De La Rue	18,347	1.3	Bank note printer
	Top Forty Investments	**1,102,595**	**77.3**	
41	Castings	17,984	1.3	Engineering - automotive castings
42	Capital	17,502	1.2	Rental of drilling equipment
43	Helical	17,451	1.2	London property developer
44	Eurocell	17,432	1.2	Manufacture of UPVC building products
45	Hostelworld Group	16,820	1.2	Hostel booking platform
46	Dowlais Group	16,668	1.2	Automotive parts manufacturer
47	Smiths News	16,598	1.2	Newspaper distribution
48	MONY Group	16,576	1.2	Price comparison websites
49	Hilton Food Group	16,175	1.1	Food manufacturer
50	TT Electronics	14,837	1.0	Sensors & other electronic components
	Top Fifty Investments	**1,270,638**	**89.1**	
	Other Investments (27)	248,584	17.4	
	Total Investments	**1,519,222**	**106.5**	
	Net Liabilities	(93,285)	(6.5)	
	Total Net Assets	**1,425,937**	**100.0**	

Long Term Investment Record

Historical Total Returns[5]

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30 June 2024	21.9	14.5	27.6
1 year to 30 June 2023	8.1	4.4	8.7
1 year to 30 June 2022	-17.3	-17.2	-21.4
1 year to 30 June 2021	76.3	49.8	70.8
1 year to 30 June 2020	-24.9	-15.0	-21.7
1 year to 30 June 2019	-10.7	-5.4	-11.1
1 year to 30 June 2018	10.0	7.6	15.7
1 year to 30 June 2017	35.7	29.1	41.4
1 year to 30 June 2016	-15.2	-6.6	-21.7
1 year to 30 June 2015	13.4	10.4	16.6

Periods to 30 June 2024	Annualised Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	14.8	9.3	17.7	31.7	19.6	38.6
3 years	2.9	-0.3	2.9	8.9	-1.0	8.9
4 years	17.7	10.4	16.8	91.9	48.3	86.0
5 years	7.6	4.7	7.8	44.1	26.1	45.6
6 years	4.3	3.0	4.4	28.7	19.3	29.4
7 years	5.1	3.6	5.9	41.5	28.4	49.8
8 years	8.5	6.5	9.8	92.1	65.8	111.8
9 years	5.6	5.0	5.8	62.9	54.9	65.9
10 years	6.3	5.5	6.8	84.7	70.9	93.4
15 years	11.2	10.5	11.4	390.9	346.5	406.6
33.6 years from inception[4]	12.0	9.7	11.8	4,383.3	2,126.9	4,069.0

1 Represents Net Asset Value return with dividends reinvested.

2 Represents capital appreciation/(depreciation) on the Deutsche Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested.

3 Represents Ordinary Share price return with dividends reinvested.

4 Inception date of the Company was 10 December 1990.

5 Alternative Performance Measures (refer to the glossary in the 2023 Annual Report).

Interim Management Report

A review of the half year and the outlook for the Company can be found in the Chairman's Statement and the Managers' Report.

Risks and Uncertainties

The Directors have a process for identifying, evaluating and managing the principal and emerging risks faced by the Company. The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a simple capital structure; invests only in small UK quoted companies; is not exposed to derivatives and does not presently intend any such exposure; and outsources all the main operational activities to recognised, well established firms.

The principal risks faced by the Company relate to investment strategy/performance, market risk, share price discount, gearing, reputational risk and regulatory risk. An explanation of these risks and how they are managed can be found in the Strategic Report contained within the 2023 Annual Report. These principal risks and uncertainties continue to apply as disclosed in the 2023 Annual Report and as updated by the Managers' Report in these interim statements.

Going Concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. The Company's assets comprise mainly readily realisable equity securities and funding flexibility can typically be achieved through the use of the Company's borrowing facilities. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

(i) the condensed set of financial statements has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

(ii) the Half Yearly Report includes a fair review of information required by:

- (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events during the first six months of the year and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being disclosure of related party transactions and changes therein.

(iii) the Half Yearly Report, taken as a whole, is fair, balanced and understandable and provides information necessary for Shareholders to assess the Company's performance, objective and strategy.

On behalf of the Board
Richard Davidson
26 July 2024

Income Statement

(unaudited)

For the six months ended 30 June 2024

	Six months ended 30 June 2024			Six months ended 30 June 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	**–**	**73,968**	**73,968**	–	34,230	34,230
Movement in fair value	**–**	**72,570**	**72,570**	–	(47,669)	(47,669)
Net gains/(losses) on investments	**–**	**146,538**	**146,538**	–	(13,439)	(13,439)
Investment income	**27,050**	**–**	**27,050**	27,591	–	27,591
Other income	**57**	**–**	**57**	51	–	51
Investment management fee (Note 2)	**(1,770)**	**(2,950)**	**(4,720)**	(1,685)	(2,809)	(4,494)
Portfolio transaction costs	**–**	**(1,102)**	**(1,102)**	–	(1,173)	(1,173)
Other expenses	**(427)**	**–**	**(427)**	(431)	–	(431)
Net return before finance costs and tax	**24,910**	**142,486**	**167,396**	25,526	(17,421)	8,105
Finance costs (Note 2)	**(1,239)**	**(2,066)**	**(3,305)**	(792)	(1,319)	(2,111)
Return on ordinary activities before tax	**23,671**	**140,420**	**164,091**	24,734	(18,740)	5,994
Tax on ordinary activities	**–**	**–**	**–**	(82)	–	(82)
Return attributable to equity shareholders	**23,671**	**140,420**	**164,091**	24,652	(18,740)	5,912
Returns per Ordinary Share (Note 4)	**28.12p**	**166.78p**	**194.90p**	29.04p	(22.08)p	6.96p

Dividends

On 26 July 2024, the Board declared an interim dividend for the year ending 31 December 2024 of 13.60p per Ordinary Share (2023 – 12.95p), which will be paid on 29 August 2024.

Income Statement

(continued)

	Year ended 31 December 2023 Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	–	59,725	59,725
Movement in fair value	–	(1,293)	(1,293)
Net gains on investments	–	58,432	58,432
Investment income	56,423	–	56,423
Other income	91	–	91
Investment management fee (Note 2)	(3,350)	(5,583)	(8,933)
Portfolio transaction costs	–	(1,855)	(1,855)
Other expenses	(823)	–	(823)
Net return before finance costs and tax	52,341	50,994	103,335
Finance costs (Note 2)	(1,578)	(2,631)	(4,209)
Return on ordinary activities before tax	50,763	48,363	99,126
Tax on ordinary activities	(82)	–	(82)
Return attributable to equity shareholders	50,681	48,363	99,044
Returns per Ordinary Share (Note 4)	59.79p	57.05p	116.84p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2024

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2023	**844**	**144**	**38,840**	**1,158,046**	**99,353**	**1,297,227**
Return on ordinary activities after tax	–	–	–	140,420	23,671	164,091
Equity dividends paid	–	–	–	–	(31,686)	(31,686)
Purchase of Ordinary Shares	(3)	3	(3,695)	–	–	(3,695)
Balance as at 30 June 2024	**841**	**147**	**35,145**	**1,298,466**	**91,338**	**1,425,937**

For the year ended 31 December 2023

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2022	853	135	50,481	1,109,683	89,718	1,250,870
Return on ordinary activities after tax	–	–	–	48,363	50,681	99,044
Equity dividends paid	–	–	–	–	(41,046)	(41,046)
Purchase of Ordinary Shares	(9)	9	(11,641)	–	–	(11,641)
Balance as at 31 December 2023	844	144	38,840	1,158,046	99,353	1,297,227

For the six months ended 30 June 2023

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2022	853	135	50,481	1,109,683	89,718	1,250,870
Return on ordinary activities after tax	–	–	–	(18,740)	24,652	5,912
Equity dividends paid	–	–	–	–	(30,084)	(30,084)
Purchase of Ordinary Shares	(6)	6	(7,501)	–	–	(7,501)
Balance as at 30 June 2023	847	141	42,980	1,090,943	84,286	1,219,197

Balance Sheet

(unaudited)

As at 30 June 2024

	30 June 2024 £'000	31 December 2023 £'000	30 June 2023 £'000
Fixed assets			
Investments at fair value through profit or loss (Note 5)	**1,519,222**	1,363,980	1,262,992
Current assets			
Investment income receivable	**2,086**	2,593	4,151
Amounts due from brokers	**894**	–	8,461
Other debtors	**93**	68	41
Cash at bank	**5,691**	2,734	10,710
	8,764	5,395	23,363
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(3,892)**	–	(2,096)
Other creditors	**(282)**	(305)	(252)
	(4,174)	(305)	(2,348)
Net current assets	**4,590**	5,090	21,015
Total assets less current liabilities	**1,523,812**	1,369,070	1,284,007
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(97,875)**	(71,843)	(64,810)
TOTAL NET ASSETS	**1,425,937**	1,297,227	1,219,197
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital			
Ordinary Shares	**841**	844	847
Reserves			
Capital redemption reserve	**147**	144	141
Special reserve	**35,145**	38,840	42,980
Capital reserve	**1,298,466**	1,158,046	1,090,943
Revenue reserve	**91,338**	99,353	84,286
TOTAL SHAREHOLDERS' FUNDS	**1,425,937**	1,297,227	1,219,197
Net asset value per share (Note 6)	**1,694.73p**	1,536.73p	1,438.50p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2024

	Six months ended 30 June 2024 £'000	Six months ended 30 June 2023 £'000	Year ended 31 December 2023 £'000
Net cash inflow from operating activities	**22,441**	20,586	46,160
Investing activities			
Purchases of investments	**(163,680)**	(127,971)	(255,193)
Sales of investments	**156,872**	166,262	270,051
Cash (outflow)/inflow from investing activities	**(6,808)**	38,291	14,858
Financing activities			
Purchases of Ordinary Shares	**(3,695)**	(7,501)	(11,641)
Equity dividends paid	**(31,686)**	(30,084)	(41,046)
Interest and fees paid	**(3,295)**	(2,250)	(4,265)
Gross drawdowns of bank debt facilities (before any costs)	**56,000**	20,000	52,000
Gross repayments of bank debt facilities (before any costs)	**(30,000)**	(30,000)	(55,000)
Cash (outflow) from financing activities	**(12,676)**	(49,835)	(59,952)
Change in cash during the period	**2,957**	9,042	1,066
Cash at the start of the period	**2,734**	1,668	1,668
Cash at the end of the period	**5,691**	10,710	2,734

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been prepared on a going concern basis and in accordance with the Financial Reporting Standard 104 and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts". The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period. The same accounting policies used for the year ended 31 December 2023 have been applied.

2. Investment Management Fee and Bank Borrowings

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

The investment management fee and finance costs of bank borrowings have been allocated 62.5% to capital reserve and 37.5% to revenue reserve, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

3. Dividends

	Six months ended 30 June 2024 £'000	Six months ended 30 June 2023 £'000	Year ended 31 December 2023 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 26.95p for the year ended 31 December 2022	**–**	23,000	23,000
Special dividend of 8.30p for the year ended 31 December 2022	**–**	7,084	7,084
Interim dividend of 12.95p for the year ended 31 December 2023	**–**	–	10,962
Final dividend of 28.55p for the year ended 31 December 2023	**24,091**	–	–
Special dividend of 9.00p for the year ended 31 December 2023	**7,595**	–	–
	31,686	30,084	41,046

The interim dividend for the year ending 31 December 2024 of 13.60p (2023 – 12.95p) will be paid on 29 August 2024 to shareholders on the register on 9 August 2024. The ex dividend date is 8 August 2024. The interim dividend has not been included as a liability in these financial statements.

Notes to the Financial Statements

4. Returns per Ordinary Share

The returns per Ordinary Share are based on the following.

	30 June 2024	30 June 2023	31 December 2023
Returns attributable to Ordinary Shareholders	**£164,091,000**	£5,912,000	£99,044,000
Weighted average number of shares in issue during the period	**84,192,569**	84,888,578	84,766,084
Return per Ordinary Share	**194.90p**	6.96p	116.84p

5. Investments at fair value

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

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

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

Investments held at fair value through profit or loss

As at 30 June 2024	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed equities	**1,519,222**	**–**	**–**	**1,519,222**
Unlisted equities	**–**	**–**	**–**	**–**
Total financial asset investments	**1,519,222**	**–**	**–**	**1,519,222**

As at 31 December 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,363,980	–	–	1,363,980
Unlisted equities	–	–	–	–
Total financial asset investments	1,363,980	–	–	1,363,980

As at 30 June 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,262,992	–	–	1,262,992
Unlisted equities	–	–	–	–
Total financial asset investments	1,262,992	–	–	1,262,992

Notes to the Financial Statements

6. Net Asset Value per Ordinary Share

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

	30 June 2024	31 December 2023	30 June 2023
Net assets attributable	£1,425,937,000	£1,297,227,000	£1,219,197,000
Ordinary Shares in issue at end of period	84,139,605	84,414,605	84,754,605
Net Asset Value per Ordinary Share	1,694.73p	1,536.73p	1,438.50p

7. Share Capital

During the period, the Company bought back and cancelled 275,000 shares (2023: 590,000) at a cost of £3,695,000 (2023: £7,501,000). No shares have been bought back for cancellation between 1 July 2024 and 26 July 2024.

8. Related party transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company. Under UK accounting standards, the Directors have been identified as related parties and their fees and interests are disclosed in the 2023 Annual Report.

9. Alternative Performance Measures

Alternative Performance Measures ("APMs") are measures that are not defined by FRS 102 and FRS 104. The Company believes that APMs, referred to within ‘Financial Highlights’ on page 1, provide Shareholders with important information on the Company and are appropriate for an investment trust. These APMs are also a component of reporting to the Board. A glossary of APMs can be found in the 2023 Annual Report.

10. Further Information

The foregoing do not constitute statutory accounts of the Company (as defined in section 434(3) of the Companies Act 2006). The financial information for the year ended 31 December 2023 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The Auditor issued an unqualified opinion on those accounts and did not make any statements under section 498(2) or (3) of the Companies Act 2006. All information shown for the six months to 30 June 2024 is unaudited.

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

Notes

Corporate Information

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Jaz Bains
Patricia Dimond
Victoria Stewart
Martin Warner

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