Aberforth Smaller Companies Trust plc

Half Yearly Report

30 June 2023

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 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. The Company's Investment Policy is set out in its Annual Report.

Contents

All data throughout this Half Yearly Report are to, or as at, 30 June 2023 as applicable, unless otherwise stated.

Financial Highlights

Six months to 30 June 2023

Total Return Performance	%
Net Asset Value per Ordinary Share[1,5]	**0.4**
Numis Smaller Companies Index (excluding Investment Companies)[2,5]	**1.4**
Ordinary Share Price[3,5]	**-4.4**

	30 June 2023	31 December 2022	30 June 2022
Shareholders' Funds[4]	**£1,219m**	£1,251m	£1,191m
Market Capitalisation[5]	**£1,044m**	£1,128m	£1,018m
Actual Gearing employed[4]	**3.6%**	5.7%	4.6%
Net Asset Value per Ordinary Share[4]	**1,438.50p**	1,465.67p	1,373.14p
Ordinary Share price[5]	**1,232.00p**	1,322.00p	1,174.00p
Ordinary Share discount[5]	**14.4%**	9.8%	14.5%

Cumulative Returns (%) Period to 30 June 2023	NAV[1,5]	Index[2,5]	Share Price[5]
1 Year	8.1	4.4	8.7
3 Years	57.4	29.5	45.8
5 Years	5.5	4.2	1.5
10 Years	99.7	79.6	100.0
15 Years	235.7	241.8	263.5
Since inception on 10 December 1990	3,577.1	1,845.0	3,168.4

1 Represents net asset value return with dividends reinvested.

2 Represents the return on the NSCI (XIC) with dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2023 consisted of 350 companies, the largest market capitalisation of which was £1.6 billion and the aggregate market capitalisation of which was £140 billion.

3 Represents Ordinary Share price return with dividends reinvested.

4 UK GAAP Measure (refer to the glossary in the 2022 Annual Report).

5 Alternative Performance Measures (refer to the glossary in the 2022 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

The gloom of stockmarkets in 2022 has given way to a somewhat brighter mood so far in 2023. Over the six months to 30 June 2023, the FTSE All-Share, which is representative of larger UK companies, recorded a total return of +2.6%. The return from the benchmark index of smaller companies – the Numis Smaller Companies Index (excluding Investment Companies) or NSCI (XIC) – was +1.4%. ASCoT's net asset value total return was +0.4%. Amid the general widening of investment trusts discounts over the past two years, ASCoT's discount expanded from 9.8% to 14.4% over the six months to 30 June 2023. This meant that its share price total return in the period was -4.4%.

The source of the stockmarket's renewed enthusiasm is across the Atlantic. Lower energy prices and easing supply chains have reduced the rate of inflation in the US. The hope is that this development will soon enable the Federal Reserve to end its programme of aggressive interest rate rises. The prospect of lower US interest rates, which influence the valuation of assets globally, has out-weighed concerns about US regional bank failures and the continuing war in Ukraine.

Notwithstanding the rise in share prices so far this year, sentiment in and towards the UK remains at a low ebb. There are welcome signs of political pragmatism among both the Conservative and Labour parties, but the imminence of a General Election justifies continued nervousness about politics. Inflation is proving more difficult to control than in the US and so interest rates here have continued to rise. While the Bank of England has revised its extremely pessimistic prediction of the longest recession since records began, fears linger about economic slowdown, especially as mortgage rates continue to rise.

Amid these top-down uncertainties, the good news is that the companies in which ASCoT invests have continued to display their familiar resilience. The Managers' Report describes their balance sheet strength and dividend growth. It also contrasts these qualities with what appear to me to be anomalous stockmarket valuations.

Dividends

One of the acid tests of a company's resilience is its ability to pay a rising dividend. ASCoT's investee companies have passed that test in the first half of 2023, continuing the recovery from the darkest days of the pandemic. Good underlying progress has been supplemented by the receipt of four special dividends. Based on the Managers' current dividend forecasts for the portfolio's holdings, it is likely that ASCoT's Revenue Return per Ordinary Share in 2023 will be higher than what was a very strong result in 2022.

It would be unwise to rely entirely on forecasts when the path for the economy is so uncertain, but ASCoT also benefits from its revenue reserves, which have been built up in the good years and which can be used to support ASCoT's dividends in the bad times, such as during the pandemic. These reserves were 69.9p per Ordinary Share at 31 December 2022, equivalent to 1.8 times last year's underlying dividend. The Board therefore remains comfortable with its ambition to increase ASCoT's full year dividend at a rate above that of inflation, even though the UK's persistent inflationary pressures mean that this is still a high hurdle.

Chairman's Statement

We are pleased to announce an interim dividend of 12.95p per Ordinary Share, which represents an increase of 7.5% on the previous year's 12.05p. As was the case with last year's interim dividend, 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 in order 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 25 August 2023 to Shareholders on the register at the close of business on 4 August 2023. The ex dividend date is 3 August 2023. The Company operates a Dividend Reinvestment Plan, details of which are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Gearing

In May 2023, the Company announced that it had refinanced the existing committed credit facility with The Royal Bank of Scotland International Limited in the amount of £130m for a further three years to 15 June 2026.

These borrowing facilities offer flexibility that is consistent with the Company's gearing policy, which is to deploy gearing in a tactical manner in order to take advantage of periods of stress in equity markets. Gearing has been deployed on four occasions in ASCoT's 32 year history, the most recent opportunity coming in 2020 with the pandemic. Since then, gearing has enhanced ASCoT's investment returns, and, because portfolio valuations remain low, it remained in place at 30 June 2023. The gearing ratio, which is the ratio of net debt to Shareholders' Funds, was 4% at that date.

Annual General Meeting (AGM)

All resolutions at the Annual General meeting held on 2 March 2023 were passed, including approval for the renewal of authority to buy back up to 14.99% of ASCoT's Ordinary Shares. The resolutions also included a vote on the continuation of the Company, which is presented to Shareholders every three years. The Board is grateful for Shareholders' resounding support, with 99.9% of votes cast in favour of the resolution.

Share buy-back

In the six months to 30 June 2023, 590,000 shares were bought back and cancelled. The total value of these repurchases was £7.5m, on an average discount of 13%.

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

Chairman's Statement

Conclusion

The UK economy has defied gravity over the past year. Despite unprecedented rises in interest rates, recession has been avoided. However, the persistence of inflation has required the Bank of England to continue to tighten monetary policy. As higher mortgage rates squeeze household budgets further, I fear that a downturn is now inevitable. The government has been willing to offer fiscal support to cope with lockdowns and high energy costs, but it is not clear that further support is possible or even advisable, since it would exacerbate the underlying pressure on prices.

What I have written may not be considered particularly insightful since it is what financial markets in the UK have been worrying about for some time. As uncertainty about the economy persists, the stockmarket has been condemned to a holding pattern. The valuations of UK equities in general and of the portfolio in particular remain very low, with few buyers of small UK quoted companies beyond contrarian value investors, such as the Managers, and opportunistic takeovers by private equity and other companies. But we know that stockmarkets are prone to fits of elation and despondency. Their tendency to overreact gives me confidence that today's valuations are the basis of good future returns. In due course, the stockmarket will anticipate the recovery of the economy and small company share prices are likely to rebound rapidly – ASCoT's portfolio is well positioned to prosper in these circumstances.

When contemplating the uncertainties of the future, it is important not to lose sight of the here and now. In our interactions with the Managers and our scrutiny of the value investment philosophy, my fellow directors and I are reassured by the quality of the companies in which ASCoT invests. Strong balance sheets, growth through the economic cycle and good management amid the various trials of recent years give us confidence that these companies will be able to take advantage of the inevitable recovery. In the meantime, the dividend performance of the portfolio's companies gives the Board confidence that ASCoT's dividend can continue to grow and pay its Shareholders to wait for the stockmarket to reflect more fairly the prospects of small UK quoted companies.

Richard Davidson
26 July 2023
richard.davidson@aberforth.co.uk

Managers' Report

Introduction

ASCoT's net asset value total return in the six months to 30 June 2023 was 0.4%. Over the same period, the NSCI (XIC) – ASCoT's benchmark – rose by 1.4%. Meanwhile, the FTSE All-Share, which is representative of larger UK companies, was up by 2.6%.

After the poor returns of 2022, equity markets around the world have begun 2023 more positively. Several factors have contributed to the improved mood. The initial shock of Russia's war in Ukraine has subsided, while some of the worst fears about energy supplies and prices have so far proved misplaced. The reopening of China's economy, following strict pandemic lockdowns, should contribute to global economic activity and promises to ease pressure on supply chains. Related to these points, inflationary forces appear to be abating: in most major economies, the rate of change in consumer prices is declining, though it remains elevated in comparison with the period before the pandemic.

The response to inflation has been the large and rapid increases in interest rates over the past 18 months. These have complicated economic activity and asset valuations. They have also precipitated financial accidents, such as the UK's brief LDI pension crisis in the autumn followed by the spring's regional bank failures in the US. The markets' calculation is that subsiding inflation will soon allow the Federal Reserve to signal that the all-important US Fed Funds rate has peaked. In stockmarket terms, the main beneficiaries so far of this expectation of falling interest rates have been the large technology companies in the US: their valuations thrived in the low inflation and low interest rate environment preceding the pandemic and they are perceived as being best placed to exploit the emerging fascination with artificial intelligence.

The likelihood of the UK's monetary policy following suit seems more distant. Consumer price inflation is proving more persistent, forcing the Bank of England to raise interest rates to 5% and bringing recession closer as higher mortgage rates bite. Reawakened memories of a British problem with inflation have contributed to a pervasive and thorough pessimism about the UK's prospects. Domestic politics of recent years have not helped. A succession of prime ministers has struggled with the additional challenges that the country's departure from the EU has presented to economic activity. Ideology has too often won out over pragmatism, culminating only nine months ago in Liz Truss's extraordinary and short-lived premiership.

These concerns have affected investment in the UK. Open-ended equity funds have experienced persistent outflows for several years and institutional asset allocation decisions appear influenced more by what has been rather than what will be. Valuations attributed to UK assets languish. Against the dollar and euro, sterling remains 15% or so below its levels before the EU referendum. Gilt yields are on a wide premium to government bond yields in the US and Europe. And the UK's stockmarket valuations are towards their lowest in over 30 years when compared with global equity market averages.

Equity valuations are examined in greater detail later in this report, but the important point is that they contrast sharply with the recent performance of the underlying businesses. The majority of small UK quoted companies and of the portfolio's holdings increased profits and dividends in 2022, notwithstanding the slew of macro-economic challenges. Cost inflation was passed on successfully, which confounds a recurring concern that small companies lack pricing power. Balance sheets were strengthened and are as strong as they have been in ASCoT's 32 year history. The underlying progress and resilience have persisted through the first part of 2023.

Managers' Report

Analysis of performance

The table below sets out the contribution of various factors to ASCoT's relative return in the six months to 30 June 2023. The following paragraphs add context and explanation, mainly to the first row in the table, which quantifies the performance of the portfolio and is usually the most meaningful effect on ASCoT's overall returns.

For the six months ended 30 June 2023	Basis points
Attributable to the portfolio of investments, based on mid prices	**(126)**
(after transaction costs of 9 basis points)	
Movement in mid to bid price spread	53
Cash/gearing	1
Purchase of ordinary shares	9
Management fee	(36)
Other expenses	(4)
Total attribution based on bid prices	**(103)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 0.39%; Benchmark Index = 1.42%; difference is -1.03% being -103 basis points).

Style & size

The Managers' value investment style is often a significant influence on ASCoT's returns. Amid the interest rate rises since the pandemic, the style boosted performance in 2021 and 2022. For the six months to 30 June 2023, data from the London Business School (LBS) indicate that there was little to choose between the total returns of the NSCI (XIC)'s value stocks and its growth stocks. This is somewhat at odds with the very strong share prices of the US technology leviathans known for their growth characteristics. It seems likely that LBS's methodology did not capture broader style effects over what is a relatively short period.

Turning to size, the portfolio retains its high exposure to the "smaller small" companies within the NSCI (XIC). This is because the valuations of these "smaller small" companies remain more attractive than those of the index's larger companies, which is set out later in this report. The portfolio's size positioning often affects its investment returns, but, much like the value style, was not an important factor in the six months to 30 June 2023.

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the Tracked Universe at 30 June 2023, which is the subset of the NSCI (XIC) that the Managers follow closely and which represents 98% by value of the total index.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2023	40%	45%	10%	4%
Tracked universe: 2023	34%	36%	24%	7%

*Includes loss-makers and lenders

Managers' Report

The portfolio's balance sheet profile compares well with that of the index, having a relatively high exposure to companies with net cash and a relatively low exposure to those with higher leverage. This profile has emerged from the Managers' bottom-up stock selection – the stockmarket is not giving small companies credit in their valuations for balance sheet strength.

The other important point to make about small companies' balance sheets is that they have not been so strong since around 2014. Companies had entered the 2009 recession with too much leverage and spent the next five years repairing their balance sheets. Today, in contrast, companies would be entering a slowdown or recession with healthy balance sheets. Clearly, there are exceptions, but the broad-based balance sheet resilience is an under-appreciated feature of small companies at present.

Income

The portfolio's income performance has remained good, with dividend declarations by investee companies so far in 2023 predominantly reflecting the growth of profits in 2022. The table below splits the 78 holdings into five categories, which are determined by each company's most recent dividend action.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returner
14	9	11	40	4

More than half the holdings increased their most recent dividends. A further boost to the income performance comes from the New / Returners category. Its constituents are companies that are paying dividends for the first time or that have resumed payments, having paid nothing through the pandemic. It is anticipated that four of the current Nil Payers will move into the New / Returner category over the next 18 months. ASCoT also benefited from four special dividends announced by investee companies in the six month period.

The income credentials of the portfolio at 30 June 2023 compare well with averages over ASCoT's 32 years. The historical portfolio yield was 4.2%, which is 29% higher than the average over ASCoT's history. Meanwhile, the average dividend cover of the 78 holdings was 3.4x, which is 21% higher than the long term average. The Managers continue to expect income growth from the portfolio in 2023. An economic downturn would threaten their forecasts, but its impact should be mitigated by the portfolio's high dividend cover and strong balance sheets.

Corporate activity

There was a flurry of M&A activity in the first part of 2022, but this petered out as interest rates and the cost of corporate debt rose through the second half of the year. Entering 2023, the Managers believed that the volatility of debt markets would continue to discourage takeovers. In the event, however, six new bids were announced for constituents of the NSCI (XIC) in the six months to 30 June 2023, with ASCoT owning four of them. The average EV/EBITA of the six at their deal prices was 16.2x, while the average premium to the pre-announcement share prices was 67%.

More surprising than the rebound in M&A has been the nature of the bidders: in five of the six deals, the buyers have been private equity firms. The surprise reflects the fact that debt is the lifeblood of private equity and debt markets have not yet settled down amid on-going tightening of monetary policy. However, it would appear that the very low valuations of small UK quoted companies mean that private equity does not need debt at the outset to make their M&A models work. This is a stark illustration of the opportunity currently embedded in the valuations of small UK quoted companies.

ASCoT may benefit from further takeover premiums for its holdings as long as stockmarket valuations remain at their present low levels. However, in these circumstances, it remains important to guard against opportunism on the part of the buyers. Large takeover premiums may still not bring valuations to appropriate levels and the Managers are prepared to vote against deals where this is the case. The best M&A experiences are often those in which boards of directors consult shareholders well in advance. Such consultation reduces the risk of embarrassment, should shareholders find proposed terms unacceptable, and can lead to better outcomes, which may be that the company in question retains its independence. The Managers make it clear to the boards of the investee companies that they should be consulted in such situations and that they are willing to be insiders for extended periods.

ASCoT's gearing

Having commenced its fourth period of gearing in 2020 to take advantage of the impact of the pandemic on valuations, ASCoT remained geared in the six months to 30 June 2023. The gearing ratio fell from 5.7% to 3.6% over the six months, which was due to the timing of purchases and sales. With valuations still extremely attractive, as set out below, the logic for ASCoT to retain its gearing is strong.

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%. At 30 June 2023, it stood at 76%.

Portfolio turnover

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. Over the twelve months to 30 June 2023, turnover was 21%, which compares with an average of 34% over ASCoT's 32 year history. This relatively subdued rate of turnover is due to the low stockmarket valuations of the portfolio's holdings – discounts to the Managers' target prices have not generally narrowed, so the opportunity for "value roll" within the portfolio has been limited. "Value roll" is the term that the Managers use to describe the recycling of capital from companies with less upside to target prices into those with greater upside.

Some of the turnover in the period reflected investment in companies that entered the NSCI (XIC) on 1 January 2023. As described in the 2022 Annual Report, this was the largest ever rebalancing of the index. The 29 companies that were injected into the index offered the Managers additional opportunity: the portfolio owned four of these so-called "fallen angels" at 30 June 2023.

Managers' Report

Valuations

The table below sets out the forward valuations of the portfolio, the Tracked Universe and certain subdivisions of the Tracked Universe. The metric displayed is enterprise value to earnings before interest, tax and amortisation (EV/EBITA), which the Managers use most often in valuing companies. The forecasts underlying the ratios are the Managers'. The bullet points following the table summarise its main messages.

EV/EBITA	2022	2023	2024
ASCoT	6.3x	7.1x	5.8x
Tracked Universe (234 stocks)	9.4x	9.6x	8.7x
- 40 growth stocks	14.5x	13.6x	13.7x
- 194 other stocks	8.7x	9.0x	7.9x
- 78 stocks> £600m market cap	11.0x	10.8x	10.2x
- 156 stocks< £600m market cap	7.4x	7.9x	6.6x

- The average EV/EBITA multiples of the portfolio are much lower than those of the Tracked Universe. This has been a consistent feature over ASCoT's history and is consistent with the Managers' value investment style.
- The portfolio's 7.1x EV/EBITA ratio for 2023 is considerably lower than the average multiple of 16.2x at which this year's M&A deals in the NSCI (XIC) have been struck.
- The profit forecasts underlying the EV/EBITA multiples for 2023 and 2024 are subject to uncertainty about the timing and intensity of an economic downturn. It can be inferred from the progression of the multiple across the three years that the Managers presently expect a slowdown in 2023, followed by a recovery in 2024.
- The growth stocks within the Tracked Universe are on much higher multiples than both the portfolio and the rest of the Tracked Universe.
- The "smaller small" companies within the index – here illustrated by those with market capitalisations less than £600m – are on vast valuation discounts to their larger peers. The Managers identify no reason for this beyond a general concern about liquidity and so the portfolio has a relatively high exposure to these "smaller small" companies.

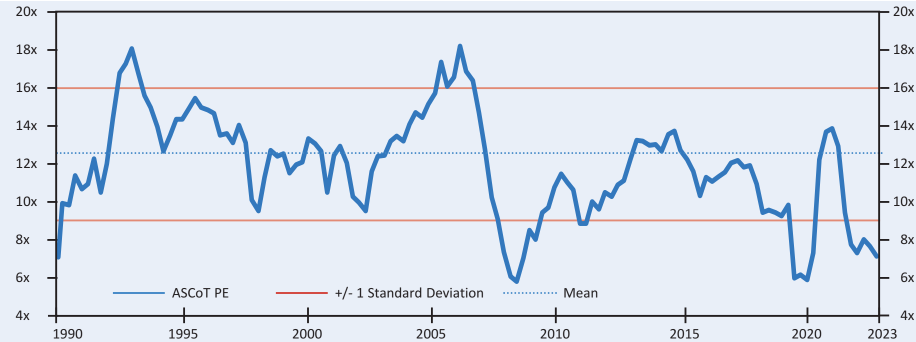
The table below sets out some of the main characteristics of ASCoT's diversified portfolio of smaller companies. The point above about exposure to "smaller small" companies is reinforced in the weighted average market capitalisation row.

Portfolio characteristics	30 June 2023 ASCoT	30 June 2023 NSCI (XIC)	30 June 2022 ASCoT	30 June 2022 NSCI (XIC)
Number of companies	**78**	**339**	76	323
Weighted average market capitalisation	**£528m**	**£945m**	£532m	£795m
Price earnings (PE) ratio (historical)	**7.1x**	**10.8x**	7.8x	9.8x
Dividend yield (historical)	**4.2%**	**3.5%**	3.3%	3.1%
Dividend cover	**3.4x**	**2.6x**	3.8x	3.3x

Managers' Report

Perhaps the most notable feature of the table is average historical price earnings ratio (PE) of ASCoT's portfolio. It has fallen from 8.1x to 7.1x over the first six months of 2023 to sit at a 34% discount to the NSCI (XIC)'s 10.8x. Given ASCoT's positive NAV return in this period, it can be inferred that the reduction in the PE was due to growth in earnings per share of the portfolio's holdings. As the following chart makes clear, a multiple of 7.1x is very low in the context of ASCoT's history.

Historical PE ratio of ASCoT



Source: Aberforth Partners

History indicates that the portfolio's historical PE ratio falls this low when recession threatens: the earlier low-points in the chart were the early 1990s recession, the global financial crisis and the pandemic. It is therefore possible that much of the risk of an economic downturn is already embedded within share prices. Taking this argument further, small company profits typically fall by around 30% in a recession. A repeat of this would take the historical PE ratio of 7.1x to a forward ratio of 10.1x. This multiple of what can be thought of as trough profits would still be well below the long term average PE multiple of 12.1x.

An influence on the portfolio's low valuation at present is its exposure to UK equities. These are out of favour with global investors for reasons previously set out in this report. Data from Panmure Gordon help quantify the scale of this disenchantment. The PE of the UK stockmarket is presently 27% lower than the PE of global equities, which is much more than the average discount of 15% over ASCoT's 32 year history. Comparing ASCoT's portfolio directly with global equities, the current PE discount is 52%, whereas the long term average has been 24%. The valuation elastic is therefore extremely stretched at present, with ASCoT on a triple discount by virtue of its value investment style, its exposure to small companies and its Britishness. This appears incongruous given the resilience of the portfolio's investee companies and the fact 45% of their revenues on average are generated outside the UK. An easing of the tension in valuations, as one or more of these relationships returns towards the normal levels of the past 32 years, should bode well for ASCoT's returns.

Managers' Report

Outlook and conclusion

The medium and long term outlook for ASCoT is bright. History is rather convincing: when valuations have reached today's levels in the past, absolute and relative total returns over the next five years have been strong.

Ironically, the greater uncertainty pertains to the nearer term. Stockmarkets' immediate obsession is US interest rates – each data release is scrutinised exhaustively for a hint of what the Federal Reserve might do next. The positive start to 2023 for equities indicates an expectation that US interest rates are close to their peak. However, there are important caveats. The speed and extent of the interest rate increases threaten further accidents – the financial world has grown used to more than a decade of almost costless money. Moreover, it is not clear that inflation will return conveniently and reliably to its pre-pandemic levels – the rate of increase will subside, but underlying inflationary pressures from labour markets and from forces such as de-globalisation linger.

While equity investors are presently enthused by the outlook for US monetary policy, they remain nervous about prospects for UK politics and economics over the next couple of years. On the political front, there will be a UK General Election within the next eighteen months. This will come at a time when the influence of the more extreme elements of both main political parties appears to be waning. However, a change of government looks likely, which brings incremental risk.

Meanwhile, the UK economy is blighted by more persistent inflation than are its peers. This threatens a more aggressive monetary response by the Bank of England and potentially a more severe downturn in economic activity. Recessions are unpleasant. They increase hardship faced by households and businesses. They reduce incomes and profits. But they are also inevitable and even necessary in order to address the effects of past policy mistakes and of unforeseeable developments such as the pandemic.

The risks are undeniable. But so is the attractiveness of the valuations attributed to the portfolio's holdings by the stockmarket, in all its worrying about the UK and about the liquidity and cyclicality of small companies. Importantly, the stress-testing of today's portfolio valuations described above suggests that much of the risk of a recession may already be embedded in share prices.

While it may take time for equity investors to re-embrace the UK stockmarket and its smaller companies, private equity and overseas companies are showing no such reluctance. The on-going wave of takeover activity is exposing the absurdity of present valuations. The portfolio has benefited from this, but it is often a bittersweet experience – the boost to investment performance from securing a takeover premium must be weighed against the likelihood that a better outcome would have been possible were so many not quick to dismiss the UK.

If patience is required to enjoy a pervasive revaluation of UK equities, it is reassuring that ASCoT's investee companies are in good shape. Balance sheets are unusually robust at present, which should ease the pain of an economic downturn by reducing the need for equity issues and by supporting dividends. The outlook for dividends paid by the portfolio's holdings is also helped by high dividend cover. Meanwhile, ASCoT's shareholders benefit from almost two years of revenue reserves, which give the Board and Managers confidence in the ambition to keep ASCoT's dividend rising ahead of inflation.

Aberforth Partners LLP
Managers
26 July 2023

Investment Portfolio

Fifty Largest Investments as at 30 June 2023

No.	Company	Valuation £'000	% of Total Net Assets	Business Activity
1	FirstGroup	51,073	4.2	Bus & rail operator
2	Morgan Advanced Materials	34,213	2.8	Manufacture of carbon & ceramic materials
3	Redde Northgate	34,169	2.8	Van rental
4	Lookers	31,237	2.6	Motor vehicle retailer
5	Wilmington Group	31,181	2.6	Business publishing & training
6	Senior	30,972	2.6	Aerospace & automotive engineering
7	Wincanton	28,575	2.3	Logistics
8	Vesuvius	28,273	2.3	Metal flow engineering
9	International Personal Finance	28,184	2.3	Home credit provider
10	Just Group	27,370	2.2	Individually underwritten annuities
	Top Ten Investments	**325,247**	**26.7**	
11	TI Fluid Systems	26,493	2.2	Automotive parts manufacturer
12	Centamin	26,423	2.2	Gold miner
13	Ricardo	24,966	2.0	Environmental & engineering consulting
14	SIG	24,961	2.0	Specialist building products distributor
15	Conduit Holdings	24,025	2.0	Bermuda based (re)insurer
16	Robert Walters	23,930	2.0	Recruitment
17	Rank Group	23,272	1.9	Multi-channel gaming operator
18	Rathbones Group	23,266	1.9	Private client fund manager
19	Bakkavor Group	22,780	1.9	Food manufacturer
20	Bodycote	22,462	1.8	Engineering - heat treatment
	Top Twenty Investments	**567,825**	**46.6**	
21	Mitchells & Butlers	22,346	1.8	Operator of restaurants, pubs & bars
22	Card Factory	22,104	1.8	Retailing - greetings cards
23	Hostelworld Group	21,191	1.7	Hostel booking platform
24	EnQuest	20,841	1.7	Oil & gas exploration and production
25	Close Brothers Group	20,451	1.7	Bank, stockbroker & private client fund manager
26	Videndum	20,138	1.7	Photographic & broadcast accessories
27	C&C Group	19,137	1.6	Brewer and drinks distributor
28	Galliford Try Holdings	18,704	1.5	Housebuilding & construction
29	Castings	17,840	1.5	Engineering - automotive castings
30	Ecora Resources	17,657	1.4	Natural resources royalties
	Top Thirty Investments	**768,234**	**63.0**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2023

No.	Company	Valuation £'000	% of Total Net Assets	Business Activity
31	Crest Nicholson	17,049	1.4	Housebuilding
32	Reach	16,988	1.4	UK newspaper publisher
33	Headlam Group	16,954	1.4	Distributor of floor coverings
34	Kenmare Resources	16,609	1.4	Miner of titanium minerals
35	NCC Group	16,527	1.4	IT security
36	Sabre Insurance Group	16,338	1.3	Car insurance
37	Capital	16,179	1.3	Rental of drilling equipment
38	CMC Markets	15,899	1.3	Financial derivatives dealer
39	TT Electronics	15,694	1.3	Sensors & other electronic components
40	Marstons	15,389	1.3	Pub operator
	Top Forty Investments	**931,860**	**76.5**	
41	PageGroup	14,505	1.2	Recruitment
42	Workspace Group	14,208	1.2	Property - rental to small businesses
43	Jupiter Fund Management	14,143	1.2	Investment manager
44	Eurocell	13,878	1.1	Manufacture of UPVC building products
45	Moneysupermarket.com	13,263	1.1	Price comparison websites
46	Keller	12,911	1.1	Ground engineering services
47	Redrow	12,855	1.1	Housebuilding
48	Avon Protection	12,798	1.0	Military protection products
49	XPS Pensions Group	12,742	1.0	Pension Consultancy
50	Foxtons	12,418	1.0	Estate Agent
	Top Fifty Investments	**1,065,581**	**87.5**	
	Other Investments (28)	197,411	16.1	
	Total Investments	**1,262,992**	**103.6**	
	Net Liabilities	(43,795)	(3.6)	
	Total Net Assets	**1,219,197**	**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 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
1 year to 30 June 2014	31.8	20.3	31.9

	Annualised Returns (%)			Cumulative Returns (%)		
Periods to 30 June 2023	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years	-5.5	-7.0	-7.6	-10.7	-13.5	-14.6
3 years	16.3	9.0	13.4	57.4	29.5	45.8
4 years	4.3	2.4	3.4	18.2	10.1	14.2
5 years	1.1	0.8	0.3	5.5	4.2	1.5
6 years	2.5	1.9	2.7	16.1	12.2	17.4
7 years	6.7	5.4	7.5	57.6	44.8	66.0
8 years	3.7	3.9	3.3	33.6	35.3	30.1
9 years	4.7	4.6	4.7	51.5	49.3	51.6
10 years	7.2	6.0	7.2	99.7	79.6	100.0
15 years	8.4	8.5	9.0	235.7	241.8	263.5
32.6 years from inception[4]	11.7	9.5	11.3	3,577.1	1,845.0	3,168.4

1 Represents Net Asset Value return with dividends reinvested.

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

3 Represents Ordinary Share price return with dividends reinvested.

4 Inception date of the Company was 10 December 1990.

5 Alternative Performance Measures (refer to the glossary in the 2022 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 policy/performance, market risk, share price discount, gearing, reputational risk and regulatory risk. An explanation of these risks and how they are managed can be found in the Strategic Report contained within the 2022 Annual Report. These principal risks and uncertainties continue to apply as disclosed in the 2022 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 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 2023

Income Statement

(unaudited)

For the six months ended 30 June 2023

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	**–**	**34,230**	**34,230**	–	16,084	16,084
Movement in fair value	**–**	**(47,669)**	**(47,669)**	–	(279,810)	(279,810)
Net (losses) on investments	**–**	**(13,439)**	**(13,439)**	–	(263,726)	(263,726)
Investment income	**27,591**	**–**	**27,591**	27,311	–	27,311
Other income	**51**	**–**	**51**	–	–	–
Investment management fee (Note 2)	**(1,685)**	**(2,809)**	**(4,494)**	(1,929)	(3,216)	(5,145)
Portfolio transaction costs	**–**	**(1,173)**	**(1,173)**	–	(1,003)	(1,003)
Other expenses	**(431)**	**–**	**(431)**	(394)	–	(394)
Net return before finance costs and tax	**25,526**	**(17,421)**	**8,105**	24,988	(267,945)	(242,957)
Finance costs (Note 2)	**(792)**	**(1,319)**	**(2,111)**	(259)	(431)	(690)
Return on ordinary activities before tax	**24,734**	**(18,740)**	**5,994**	24,729	(268,376)	(243,647)
Tax on ordinary activities	**(82)**	**–**	**(82)**	–	–	–
Return attributable to equity shareholders	**24,652**	**(18,740)**	**5,912**	24,729	(268,376)	(243,647)
Returns per Ordinary Share (Note 4)	**29.04p**	**(22.08)p**	**6.96p**	28.43p	(308.54)p	(280.11)p

Dividends

On 26 July 2023, the Board declared an interim dividend for the year ending 31 December 2023 of 12.95p per Ordinary Share (2022 – 12.05p), which will be paid on 25 August 2023.

Income Statement

(continued)

	Year ended 31 December 2022 Revenue £'000	Capital £'000	Total £'000
Realised net gains on sales	–	56,896	56,896
Movement in fair value	–	(252,652)	(252,652)
Net (losses) on investments	–	(195,756)	(195,756)
Investment income	53,188	–	53,188
Other income	7	–	7
Investment management fee (Note 2)	(3,513)	(5,855)	(9,368)
Portfolio transaction costs	–	(2,078)	(2,078)
Other expenses	(808)	–	(808)
Net return before finance costs and tax	48,874	(203,689)	(154,815)
Finance costs (Note 2)	(704)	(1,173)	(1,877)
Return on ordinary activities before tax	48,170	(204,862)	(156,692)
Tax on ordinary activities	–	–	–
Return attributable to equity shareholders	48,170	(204,862)	(156,692)
Returns per Ordinary Share (Note 4)	55.64p	(236.64)p	(181.00)p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

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**

For the year ended 31 December 2022

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2021	879	109	83,777	1,314,545	73,255	1,472,565
Return on ordinary activities after tax	–	–	–	(204,862)	48,170	(156,692)
Equity dividends paid	–	–	–	–	(31,707)	(31,707)
Purchase of Ordinary Shares	(26)	26	(33,296)	–	–	(33,296)
Balance as at 31 December 2022	853	135	50,481	1,109,683	89,718	1,250,870

For the six months ended 30 June 2022

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2021	879	109	83,777	1,314,545	73,255	1,472,565
Return on ordinary activities after tax	–	–	–	(268,376)	24,729	(243,647)
Equity dividends paid	–	–	–	–	(21,262)	(21,262)
Purchase of Ordinary Shares	(12)	12	(16,706)	–	–	(16,706)
Balance as at 30 June 2022	867	121	67,071	1,046,169	76,722	1,190,950

Balance Sheet

(unaudited)

As at 30 June 2023

	30 June 2023 £'000	31 December 2022 £'000	30 June 2022 £'000
Fixed assets			
Investments at fair value through profit or loss (Note 5)	**1,262,992**	1,322,261	1,246,040
Current assets			
Investment income receivable	**4,151**	2,118	2,637
Amounts due from brokers	**8,461**	–	–
Other debtors	**41**	27	46
Cash at bank	**10,710**	1,668	906
	23,363	3,813	3,589
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(2,096)**	–	(555)
Bank debt facility	**–**	(74,973)	–
Other creditors	**(252)**	(231)	(184)
	(2,348)	(75,204)	(739)
Net current assets/(liabilities)	**21,015**	(71,391)	2,850
Total assets less current liabilities	**1,284,007**	1,250,870	1,248,890
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(64,810)**	–	(57,940)
TOTAL NET ASSETS	**1,219,197**	1,250,870	1,190,950
CAPITAL AND RESERVES: EQUITY INTERESTS			
Share Capital			
Ordinary Shares	**847**	853	867
Reserves			
Capital redemption reserve	**141**	135	121
Special reserve	**42,980**	50,481	67,071
Capital reserve	**1,090,943**	1,109,683	1,046,169
Revenue reserve	**84,286**	89,718	76,722
TOTAL SHAREHOLDERS' FUNDS	**1,219,197**	1,250,870	1,190,950
Net asset value per share (Note 6)	**1,438.50p**	1,465.67p	1,373.14p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2023

	Six months ended 30 June 2023 £'000	Six months ended 30 June 2022 £'000	Year ended 31 December 2022 £'000
Net cash inflow from operating activities	**20,586**	20,853	42,630
Investing activities			
Purchases of investments	**(127,971)**	(108,457)	(250,161)
Sales of investments	**166,262**	152,922	284,746
Cash inflow from investing activities	**38,291**	44,465	34,585
Financing activities			
Purchases of Ordinary Shares	**(7,501)**	(17,436)	(34,026)
Equity dividends paid	**(30,084)**	(21,262)	(31,707)
Interest and fees paid	**(2,250)**	(632)	(1,732)
Gross drawdowns of bank debt facilities (before any costs)	**20,000**	43,000	126,000
Gross repayments of bank debt facilities (before any costs)	**(30,000)**	(71,500)	(137,500)
Cash (outflow) from financing activities	**(49,835)**	(67,830)	(78,965)
Change in cash during the period	**9,042**	(2,512)	(1,750)
Cash at the start of the period	**1,668**	3,418	3,418
Cash at the end of the period	**10,710**	906	1,668

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 2022 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 2023 £'000	Six months ended 30 June 2022 £'000	Year ended 31 December 2022 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend of 24.25p for the year ended 31 December 2021	**–**	21,262	21,262
Interim dividend of 12.05p for the year ended 31 December 2022	**–**	–	10,445
Final dividend of 26.95p for the year ended 31 December 2022	**23,000**	–	–
Special dividend of 8.30p for the year ended 31 December 2022	**7,084**	–	–
	30,084	21,262	31,707

The interim dividend for the year ending 31 December 2023 of 12.95p (2022 – 12.05p) will be paid on 25 August 2023 to shareholders on the register on 4 August 2023. The ex dividend date is 3 August 2023. 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 2023	30 June 2022	31 December 2022
Returns attributable to Ordinary Shareholders	**£5,912,000**	£(243,647,000)	£(156,692,000)
Weighted average number of shares in issue during the period	**84,888,578**	86,981,282	86,570,115
Return per Ordinary Share	**6.96p**	(280.11)p	(181.00)p

5. Investments at fair value

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

Level 1 - using unadjusted quoted prices for identical instruments in an active market;
Level 2 - using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and
Level 3 - using inputs that are unobservable (for which market data is unavailable).

Investments held at fair value through profit or loss

As at 30 June 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**

As at 31 December 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,322,261	–	–	1,322,261
Unlisted equities	–	–	–	–
Total financial asset investments	1,322,261	–	–	1,322,261

As at 30 June 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,246,040	–	–	1,246,040
Unlisted equities	–	–	–	–
Total financial asset investments	1,246,040	–	–	1,246,040

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 2023	31 December 2022	30 June 2022
Net assets attributable	£1,219,197,000	£1,250,870,000	£1,190,950,000
Ordinary Shares in issue at end of period	84,754,605	85,344,605	86,731,924
Net Asset Value per Ordinary Share	1,438.50p	1,465.67p	1,373.14p

7. Share Capital

During the period, the Company bought back and cancelled 590,000 shares (2022: 1,216,342) at a cost of £7,501,000 (2022: £16,706,000). 105,000 shares have been bought back for cancellation between 1 July 2023 and 26 July 2023.

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 2022 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 2022 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 2022 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 2023 is unaudited.

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

Notes

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Jaz Bains
Patricia Dimond
Victoria Stewart
Martin Warner

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