DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

ANNUAL REPORT AND ACCOUNTS
31 OCTOBER 2013

COMPANY NUMBER – SC014692

Contents

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If you have sold or otherwise transferred all your Ordinary shares in Dunedin Smaller Companies Investment Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Strategic Report – Company Summary and Financial Highlights

The Company
The Company is an investment trust and its Ordinary shares are listed on the premium segment of the London Stock Exchange. The Company aims to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

What is an Investment Trust?
Investment trusts are a way to make a single investment that gives you a share in a much larger portfolio. A type of collective investment, they let you spread your risk and access investment opportunities you might not find on your own.

Investment Objective
The achievement of long term growth from a portfolio of smaller companies in the United Kingdom.

Company Benchmark
FTSE SmallCap Index (excluding Investment Companies).

Manager
The Company is managed by Aberdeen Asset Managers Ltd ("AAM" or the "Manager").

Website
Up-to-date information can be found on the Company's website - www.dunedinsmaller.co.uk

Financial Highlights

	2013	2012
Net asset value total return	+38.1%	+21.6%
Share price total return	+33.8%	+33.3%
FTSE SmallCap Index (ex Investment Companies) total return	+47.8%	+22.4%
Earnings per share (revenue)	5.43p	4.61p
Dividends per share[A]	5.15p	5.00p

[A] Reflects the dividends declared for the year in which they were earned.

Net Asset Value per share
At 31 October – pence

Mid-market price per share
At 31 October – pence

Dividends per share
pence

Strategic Report – Overview of Strategy

Aim

The Company aims to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

The business of the Company is that of an investment trust and the Directors do not envisage any change in this activity in the foreseeable future. The Company's overall objective and key results are shown on page 1. A review of the Company's activities is given in the Chairman's Statement on pages 4 and 5 and the Manager's Review on pages 6 to 9. This includes a review of the business of the Company and its principal activities, likely future developments of the business, the recommended dividend and details of any acquisition of its own shares by the Company. The Board has adopted a matrix of the key risks that affect its business. The major financial risks associated with the Company are detailed in note 17 to the Financial Statements. Other risks include:

(i) **Performance risk:** The performance of the portfolio relative to the benchmark (FTSE SmallCap Index (ex Investment Companies)) and the underlying stock weightings in the portfolio against their index weightings are monitored closely by the Board.

(ii) **Discount volatility:** The Company's shares can trade at a discount to the underlying net asset value per share. The Company operates a share buyback programme, and any shares repurchased may be either cancelled or held in treasury. The programme is reviewed on an ongoing basis.

(iii) **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations, such as Sections 1158-1159 of the Corporation Tax Act 2010, the UKLA Listing Rules and the Companies Act, could lead to a number of detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulations by reviewing risk and internal control reports from the Manager.

(iv) **Gearing risk:** The Company has the ability to utilise gearing in the form of a three year credit facility. Gearing has the effect of accentuating market falls and market gains. The Board is responsible for determining the gearing policy of the Company. The current guidelines from the Board authorise the Manager to invest up to £5 million of borrowings without reference to the Board. The Board has stated previously that the maximum level of gearing is 20%.

Key Performance Indicators (KPIs)

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Below are the main KPIs which have been identified by the Board for determining the progress of the Company:

- Net Asset Value
- Share Price
- Discount
- FTSE SmallCap Index (ex Investment Companies)
- Ongoing Charges

A record of these measures is disclosed on page 10.

Business Model - Investment Policy and Approach

The Company maintains a diversified portfolio of investments, typically comprising in the region of 40 to 75 holdings (but without restricting the Company from holding a more or less concentrated portfolio from time to time). The Company is unconstrained as to the market sectors in which it may invest.

The Company invests primarily in the equity securities of UK smaller companies, with an emphasis on investing in quality companies with good management, strong cash flow, a sound balance sheet and the prospect of dividend growth.

The Company does not typically acquire securities that are unquoted or unlisted at the time of investment (with the exception of securities which are about to be listed or traded on a stock exchange). However, the Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate.

It is the policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

It is the policy of the Company to invest no more than 15% of its gross assets in any one company.

Achieving Investment Process

The Manager believes that, over the long term, share prices reflect underlying business fundamentals. A bottom-up process is followed, which is based on a disciplined evaluation of companies through direct visits.

Company selection is the major source of added value. New investments are not made without the Manager having first met management of the investee company, undertaken further analysis and written detailed notes to outline the underlying investment merits. A company's value is estimated in two stages; quality then price. Quality is defined with reference to management, business focus, balance sheet and corporate governance. Price is calculated relative to key financial ratios and business prospects. The Manager believes that risk should be considered in the context of investing in poor quality companies and/or overpaying, rather than relative to a benchmark; hence, great emphasis is placed on understanding the business and understanding how it should be valued.

Top-down factors are secondary in the Manager's portfolio construction, with diversification rather than formal controls guiding stock and sector weightings. The Manager's portfolios are generally run conservatively, with an emphasis on traditional buy-and-hold, top-slicing/topping up being preferred to outright trading and this approach results in low turnover within portfolios. Typically, investee companies have a higher return on equity/assets and lower debt to equity than the market averages.

Portfolios are managed by the Manager on a team basis, led by Ed Beal, with individual investment managers carrying out their own research and analysis. Each investment desk has a model portfolio that contains its best ideas, and forms the basis for portfolios, both retail and institutional. All ideas are shared via formal committees and common databases, with desk heads and the Chief Investment Officer ensuring there is consistency across portfolios. The investment process and risk controls employed by the Manager are further disclosed on page 46.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the right knowledge in order to allow the Board to fulfill its obligations. At 31 October 2013, there were four male Directors. The Company has no employees. The Board's statement on diversity is set out on page 21.

Environmental, Social and Human Rights Issues

The Company has no employees as it is managed by Aberdeen Asset Managers Limited. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is outlined on page 24.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Duration

The Company does not have a fixed life.

Dalhousie.

The Earl of Dalhousie
Chairman
13 December 2013

Strategic Report - Chairman's Statement

The Earl of Dalhousie
Chairman

I am pleased to report on another year of good returns for our shareholders. The Company's net asset value per share (NAV) rose by over 30%, we have increased the dividend by 3% and the share price reached a record high during the year.

Over the twelve months ended 31 October 2013, the Company's NAV increased from 168.2p to 226.0p. This represented an increase of 34.4% which compares with a return of 43.9% for the Company's benchmark. The Company's share price rose from 166.0p to 216.0p, an increase of 30.1%. The under-performance of the net asset value relative to the benchmark was in part attributable to a recovery in some stocks which do not meet our investment criteria, however medium and long-term returns remain ahead of the benchmark index. We are achieving our objective of long term growth with our NAV rising by 199.1% in total return terms over the last five years which compares to the benchmark total return of 173.3%.

Our investment portfolio is constructed to deliver both capital and income growth and we remain focused on identifying good quality companies run by strong management teams, particularly where an above-average dividend yield is available. As a general rule, we do not invest in loss-making businesses which may be high-risk and carry a material chance of failure. The success of this approach is reflected in our returns over longer time periods.

Equity markets moved steadily higher throughout the period with only the occasional setback, on Eurozone related issues, interrupting the move above market levels last experienced in 2007 – with smaller companies in the UK continuing to out-perform the broader market. The driving forces were increased optimism about the recovery in the US economy and, latterly, evidence beginning to emerge of faster growth in the UK, although activity in Europe remains anaemic. Reassurances from the central banks in the UK and the USA of their intentions to keep interest rates at historically low levels until growth and employment improved also boosted investor sentiment.

The number of companies in the portfolio increasing dividends against a difficult business environment was encouraging and the Company's revenue return per share has risen from 4.61p to 5.43p. The Board is proposing an increase in the final dividend to 3.10p per share (2012 – 3.00p) which subject to approval from shareholders at the Annual General Meeting will be paid on 11 February 2014 to shareholders on the register on 17 January 2014. When combined with the interim dividend of 2.05p, the total dividend for the year will amount to 5.15p (2012 – 5.00p), an increase of 3.0%. Following the payment of the final dividend, revenue reserves per share will amount to 5.98p (2012 – 5.70p).

The Company did not repurchase any Ordinary shares during the period. The Directors will continue to monitor the Company's discount with that of its peer group and will use the Company's share buyback powers, subject to market conditions, when it feels this to be appropriate. The discount at 31 October 2013 was 4.4% which compares with an average of 8.7% for the Association of Investment Companies UK Smaller Companies sector.

The outlook for the UK is improving with inflation under control and growth expected to accelerate in the year ahead. The Bank of England recently revised upwards its economic outlook and also indicated that inflation pressures were easing. The weak pace of growth in Europe remains a concern for many UK based companies although the recent cut in interest rates in the Eurozone provides some confidence that the authorities will continue to take steps to stimulate the economy.

The business environment will remain challenging for many companies but the improving outlook for the UK is encouraging and should be supportive for smaller companies. Our policy of investing in good quality companies whose sound business models are allied with robust balance sheets, transparent profitability and strong cash flows should serve us well and the success of this approach is reflected in our returns over longer time periods as outlined in the table below.

Alternative Investment Fund Managers Directive

Shareholders may have heard of the Alternative Investment Fund Managers Directive (the "AIFMD"), which creates a European-wide framework for regulating managers of alternative investment funds ("AIF"s). Listed investment companies fall within the definition of an AIF. The AIFMD is intended to reduce systemic risk created by the financial sector and aims to improve regulation, enhance transparency and investor protection, develop a single EU market for AIFs and implement effective mechanisms for micro- and macro-prudential oversight. The AIFMD came into force in July 2013 but a transitional period means that investment companies have until July 2014 to comply with the relevant regulations. We have agreed in principle to appoint a subsidiary of Aberdeen Asset Management PLC to act as our AIFM and are currently in the process of finalising the appointment of a Depositary as well as revising our investment management agreement.

Board of Directors

Mr Entwistle will be retiring at the conclusion of the Annual General Meeting in February after 15 years of service. I would like to place on record my thanks for his enormous contribution to the Board over that period. A recruitment process to appoint two new Directors is under way as it is my intention to retire from the Board at the conclusion of the Annual General Meeting in 2015.

Corporate Governance

The Board reviews annually the performance of the Manager, the Chairman and the Board as a whole. The Board has assessed the performance of the Manager, the investment process and risk controls. The Directors have reviewed the terms of the management agreement and believe that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 40 Princes Street, Edinburgh on 6 February 2014, at 12.00 noon and I would encourage shareholders to attend. In addition to the formal business of the meeting, our portfolio manager, Ed Beal, will provide an update on the outlook for smaller companies and there will also be an opportunity for shareholders to meet informally with the Directors at the conclusion of the Annual General Meeting.

Performance to 31 October 2013 **Total return***	**1 year return** **%**	**3 year return** **%**	**5 year return** **%**	**10 year return** **%**
Share price	+33.8	+90.1	+258.7	+356.9
Net asset value per share	+38.1	+60.2	+199.1	+236.1
FTSE SmallCap Index (ex IC's)	+47.8	+68.4	+173.3	+107.6

*The total return for share price and net asset value is calculated on the basis of reinvesting dividends to shareholders on the ex-dividend date.

Dalhousie

The Earl of Dalhousie
Chairman
13 December 2013

Strategic Report - Manager's Review

The year has been a remarkable one for small company investing. Despite the problems faced by the global economy, equity markets delivered a very strong performance, aided by rising investor appetite for risk and valuations that were attractive relative to other asset classes. Small companies have led the way posting a total return of 47.8%. Indeed the FTSE SmallCap Index (excluding Investment Companies) came within a whisker of the highs achieved in mid 2007. It is worth remembering that this came on the back of total returns in excess of 22% in the previous year.

The financial year started quite positively, supported by improving macroeconomic news flow. In the UK GDP improved significantly to 1% in the third quarter. Mark Carney was announced as the new Governor of the Bank of England; his track record in Canada suggested that monetary policy was likely to become more innovative. In the US, President Obama was re-elected which helped to remove uncertainty. Meanwhile their housing market continued its recovery. In Europe the debt crisis was easing, with the Outright Monetary Transactions facility having the desired effect as it convinced investors that a break up of the Eurozone would indeed be avoided. This served to ease the borrowing and liquidity constraints being experienced by the peripheral economies. That said the region as a whole remained in recession and 2012 was another year of economic contraction.

As we entered 2013 there was no change in the enthusiasm of market participants, indeed it was the strongest January since 1989. Investor confidence remained more important than the fundamentals. Sentiment was buoyed by further improvement in the US, an increase in Chinese GDP and employment data in the UK that was surprisingly positive. Some did observe that many of these jobs were not particularly high quality. Equity investors were however correctly noting the attractions of the yields available and that the asset class still looked attractive when compared to fixed income in particular.

Two events reminded markets that recovery would be neither simple nor guaranteed. The Italian elections concluded with a surprise result that led to concerns they may fail to meet their austerity obligations. This in turn served as a reminder that the debt crisis was not resolved. Meanwhile in the UK, Moody's downgraded the credit rating, indicating that they had concerns over the Government's ability to reduce the deficit.

It was becoming increasingly difficult to argue that equities looked cheap on an absolute basis especially considering a muted economic outlook that suggested there was a heightened risk of earnings disappointment.

Spring witnessed the return of the debt crisis to the front pages as Cypriot banks needed a bailout. For the first time depositors were forced to bear an element of the losses. This re-apportioning of pain between debtors and creditors was a watershed moment, serving to illustrate the likely path of any future resolution of the crisis.

The budget in the UK was disappointing with growth expectations revised downwards. It was notable that despite all the evidence suggesting that over indebtedness was a major cause of the global financial crisis, the policy that was greeted most enthusiastically was the Help to Buy housing scheme and associated mortgage guarantees. Certainly this will provide a short term boost to the construction industry but it is far from clear that it will provide the basis for a sustainable recovery. In the US sequestration began, with cuts applied to Government spending almost across the board. Defence companies were particularly impacted, though the effects were widely felt. However, despite the broad brush approach, spending did not cease immediately as Departments had some level of contingency plans and existing programmes were to a greater or lesser degree continued. Therefore the impact of the reductions in spending was more muted than might have been expected and consequently unemployment fell to its lowest level for four years as the recovery progressed.

Chinese growth was beginning to slow. This had a dramatic impact on many commodity prices and consequently the share prices of mining companies. Copper fell to its lowest level for 18 months, the oil price dipped below $100 and gold which had been falling for some time declined dramatically. Previously strong economies were suddenly exposed to the problems faced by other developed nations. Australia was now forecasting a budget deficit.

The Eurozone reported a sixth consecutive quarter of decline and even German GDP was weakening. The European Central Bank cut interest rates to 0.5%, their lowest ever level. There were indications that the required regional re-balancing was starting with the convergence of German and peripheral unit costs, however, this was due to costs increasing in Germany rather than the implementation of reforms elsewhere.

Despite these challenges equities were still rising and by the middle of 2013 they had delivered 12 consecutive months of gains with some indices standing at all time highs. Earnings multiples were still expanding even as expectations for profits were being reduced.

June marked an abrupt *volte face* for equities and many other asset classes. There were two factors that led to this. In the US Ben Bernanke commented that, were the economy to continue to improve he could envisage the beginning of a reduction in stimulatory activity. Thus a new word entered the lexicon: *tapering*. It was notable that this was only a reference to a potential reduction in the $85 billion of monthly asset purchases, not an unwinding of historic stimulus and also that the mind set of investors was still firmly one of "good news is bad news" in relation to the US. Gilt and Treasury yields moved up sharply. Secondly emerging markets were showing signs of slowing growth. This manifested itself in some dramatic declines in their stock markets and currencies which in turn applied further pressure to commodity prices.

The second half of the year started strongly. Investors focussed on accelerating US growth, improvements in the Eurozone economic indicators and the possibility that recovery may be commencing there. There was further strength in the UK housing market and a concomitant benefit to consumer confidence. The most notable event was the first official announcement from Mark Carney. He moved UK interest rate policy from one that targeted solely inflation to one that included growth, by specifically tying monetary policy to the level of unemployment. Bond markets were not entirely convinced that he would in fact be able to hold interest rates at current levels for as long as he was suggesting.

The final quarter of your Company's year saw mixed news. During August emerging market economies were still slowing. As their currencies weakened, imports became more costly and many companies with exposures to these geographies noted that the sales environment was deteriorating. Meanwhile the US and UK were still recovering and investors were increasingly pricing in the start of tapering. Indeed in the UK some data was the strongest it had been since 2006 and construction output began to pick up. Importantly Europe was also showing positive signs. Second quarter GDP was a surprisingly positive 0.3% and even Spain started to stabilise.

Illustrating just how quickly conditions could change, September saw a broad reversal of many of these factors. Tapering was deferred, equities rose, gilt and treasury yields fell and emerging market currencies recovered some of their losses. The good news in Europe continued with Spain able to issue 15 year debt at less than a 5% cost for the first time in two and a half years. Demonstrating the potential for an unexpected event to endanger the recovery, politicians in the US were unable to reach agreement on the budget and the country again found itself in "shutdown". The situation was eventually resolved though only temporarily.

Smaller companies finished the year even more strongly than they had started it. Appetite for risk was again increasing. This was driven by the belief that a crisis in Europe had indeed been avoided as Spain returned to growth, Greek bond yields hit post crisis lows and growth expectations for the UK in 2014 were revised upwards.

Portfolio Activity

The Company's objective is to deliver long term growth from a portfolio of UK smaller companies. We have long been clear that the returns generated should be viewed in the context of growth in earnings and hence dividends as well as capital. We have also clearly stated that our long term, fundamentally driven approach to investment will provide the foundation for these returns and that we will not relax our investment criteria to pursue short term gains. Therefore there will be periods when markets are pushed ahead by businesses that we do not regard as attractive long term investments and in such times we would anticipate an element of underperformance. Some comfort can be taken from the fact that such an environment is typically characterised by strongly rising markets and we would therefore expect to deliver perfectly respectable returns. That has been the case over the course of this year. We are proud to have delivered total returns of 38.1% though we acknowledge that this is less than the benchmark's return of 47.8%. As investment managers we would prefer to discuss the companies we have invested shareholders' money into, however, we believe that it is worth making the point that around 70% of the underperformance arose directly as a result of our not being invested in just three companies. What is more, despite knowing what has subsequently happened to their share prices we still do not believe that it would have been appropriate for us to have had holdings in them over the course of the year.

Many of the companies in the portfolio have enjoyed a very successful year. We believe that dividends are a core driver of long term returns and that ultimately they are the tangible output from a company's business model. It is therefore pleasing to report that 13 holdings increased their dividends by double digit amounts over the year. Equally importantly there were just four reductions and of these; one was wholly related to the timing of the ex-dividend date and a second simply reflected the fact that in light of their large special distribution, Dignity omitted their interim dividend. Mothercare did pass the dividend entirely. However we believe that this was the right course of action at this point in its recovery.

Of all the holdings in the portfolio the following are worthy of mention.

Bellway is a housebuilder. They performed well during the recession relative to their peer group. This was borne out of the management's decision to de-gear back in 2007 and a conservative approach that meant they were not oversupplied with unsalable stock. Therefore, unlike many of their peers, they were not forced into value destructive equity raisings. They have however been able to capitalise on the improving market conditions and this has seen dramatic improvements in profitability which have resulted in a 48% increase in the share price and 55% uplift in the dividend. This is all the more impressive when one considers that in last year's Manager's Review we noted a 60% uplift in the dividend driven by a 57% jump in profits from the company.

Restaurant Group owns the Frankie & Benny's and Chiquito brands. Their management team have done a very sound job of leading them through what has been a difficult few years for businesses exposed to consumer discretionary spending. They have outperformed their peers from a sales perspective, continued to build out an estate that benefits from sizable barriers to entry and delivered sector leading returns on their investments. Shareholders have been rewarded with a share price that rose 53% and a dividend that was 14% higher.

XP Power supplies power converters. These are the kind of device that few people ever really think about but that are absolutely critical to the functioning of any electronic device. By focussing on niche areas and away from consumer goods they have avoided the worst of the cyclicality that affects the electronics industry. Simultaneously they have invested heavily over a number of years in research and development whilst transitioning to a vertically integrated business model. Such change takes time, years not months and we have been happy to support the company through this process. This year saw a share price up 60% and a dividend increase of nearly 11%.

In broad terms the year can be characterised as one in which our investments have generally traded in line with expectations though there have been certain end markets which have proved more difficult. These include US defence spending, emerging market imports and mining and services. Pleasingly though, there have been few major issues for our businesses and those that have experienced difficulties have the balance sheet strength that will allow them to trade through transient variations in demand.

It would not be fair though to pass over Chemring. This company had been in the portfolio for many years and had delivered some very significant profits over that period. Although we were aware of the likely hiatus in demand for their countermeasures and munitions as the UK and US withdrew from Iraq and Afghanistan we had failed to appreciate how severely they would be impacted by US sequestration. That would not in itself have proven an insurmountable challenge. However a failure to adequately integrate acquisitions combined with a lack of control over the working capital resulted in an expansion in debt alongside a collapse in profitability. What had appeared a sound balance sheet rapidly unravelled and despite the change of both Chief Executive and Finance Director we concluded that it was no longer appropriate to remain investors.

We noted last year that dividend growth had been surprisingly strong in light of where we believed we were in the economic cycle, and that consequently we expected the rate of growth in dividends to slow. The comments above illustrate that we were wrong. We also commented that in part this growth could be explained by the strength of corporate balance sheets and lack of alternative uses for cash as well as the low level of pay-out ratios. It remains to be seen when managements' confidence will strengthen sufficiently to encourage them to engage in expansionary investment or merger and acquisition activity, though observing the general pick up in capital market activity we suspect that point may be getting closer. Pay-out ratios meanwhile have normalised. Therefore we believe that it is again appropriate to caution that whilst we do not expect contraction in dividends we do think growth is likely to slow.

Two companies have been introduced to the portfolio over the year.

Hansteen owns industrial real estate assets in the UK, Germany and Benelux. They also have three third party management contracts. The company benefits from having a very experienced management team. Their assets have the potential to deliver rising capital values through the efforts of the management to drive down vacancies and also through yield compression. By way of illustrating the opportunity vacancies are currently running at 19% while somewhere between 5% and 10% would be considered normal. The yield on the portfolio is 8.6%; again in more normal conditions 5% - 6% might be expected. Meanwhile asset values are supported by valuations that are well below new build costs, which serves to keep speculative development at bay. In the mean-time the lack of development activity by the company means that profits are converted into cash, a sizable proportion of which is distributed in the form of an attractive dividend.

Enquest is a producer and developer of oil and gas assets in the North Sea. The business aims to deliver value through the acquisition and subsequent enhancement of small and late life assets that are no longer of interest to the majors. They are the largest operator of this type in the region. This confers two advantages. Firstly they have a balance sheet that allows them to compete for the deals they want. Secondly they possess sufficient scale to be able to assemble and afford a very high quality technical team. The industry is one where we have historically found it difficult to match potential investments with the Company's risk profile. Whilst any business in this area is susceptible to the risks of movements in the oil price, project delays and operational issues we believe that Enquest sits at an acceptable point on the risk curve. The lack of exploration activity, a hedging policy that secures the cash flow required for committed capital expenditure and the domestic nature of the assets all support this thesis.

We exited two holdings.

Chemring has been discussed above.

Headlam is a distributor of domestic and commercial carpets in the UK and Benelux. Having been hit during the recession the share price had recovered as investors began to contemplate a return to economic growth in the UK and hence consumer spending. We took the view that the medium prospects for the company had been discounted by the market and that whilst there was nothing wrong with the business *per se* we could see more attractive opportunities elsewhere.

Outlook

It is possible to construct a relatively optimistic prognosis for equities over the coming year. The economies of the US and UK continue to recover. In Europe the problems surrounding over indebtedness and structural imbalances remain unresolved but even the region's most troubled nations are showing signs of stabilisation and in some cases recovery. Emerging markets may not be growing as strongly as we have become used to but the 7.8% that is expected from China is still very solid. There is even the potential that growth in these regions may surprise positively if a recovery in the developed nations leads to a pick-up in demand for emerging market exports.

It remains the case that equities are attractively valued relative to other asset classes, especially fixed income. That may be more a reflection of the over valuation of bonds than the cheapness of equities, but it illustrates the potential for investors to allocate more to equities. This is especially the case when one considers the paucity of income available outwith equities and the lack of growth in this income.

Capital markets are busy. There are huge deals occurring such as that between Vodafone and Verizon. IPO (Initial Public Offering) activity has taken off; witness the strength of demand for Royal Mail shares. The secondary markets are also strong; there has even been demand for Government-held stakes in bailed out banks. A handful of deals aside, merger and acquisition activity has not really accelerated, yet companies in aggregate have the firepower to acquire should they desire and private equity has kept its powder dry so far.

However there are three factors that could each have significant negative impacts.

Firstly, developed nations remain overly indebted. This will take years to resolve and economic recovery will surely help but we are ill-equipped to deal with another major setback. Resolving this situation will require not just a cessation of stimulus but the repayment of the quantitative easing that has occurred globally. Earlier in the year we witnessed the market's reaction to the suggestion that stimulus might be slowed. Neither politicians nor central bankers have even begun to publically discuss how repayment will be achieved.

Secondly are two related issues. Despite an improving economic outlook this is not being reflected in the reality of trading for many companies. Profit warnings are accelerating. Currencies are playing a part but growth as a whole has become more difficult to achieve. Businesses across a diverse array of industries including software, aerospace suppliers, pump manufacturers, food producers and lift manufacturers have all issued disappointing trading statements. Therefore the progression of markets has resulted from expansion of valuations rather than profits. This plays to the associated point which is that valuations are now quite high in absolute terms. Good quality companies in particular are trading on quite stretched valuations. This serves to both limit the potential for future share price accretion from multiple expansion and also exposes investors to the risk of sharp declines in share prices in the event companies fail to deliver on expectations.

Lastly investors need to be aware of interest rates. Ultra low or even negative rates seem to have evolved into a "new normal". That will not be the case forever. Certainly many quoted companies have been very busy diversifying their sources of funding and extending the repayment profiles. However that is not reflective of the economy as a whole. A series of increases in interest rates would likely have a very damaging impact on corporate and consumer confidence and one might reasonably expect that unless it occurred in the face of very strong economic growth it would be negative for equities.

Ed Beal
Aberdeen Asset Managers Limited
13 December 2013

Strategic Report - Results

Financial Highlights

	31 October 2013	31 October 2012	% change
Total assets less current liabilities (before deducting bank loan)	£113,153,000	£85,499,000	+32.3
Equity shareholders' funds (Net Assets)	£108,153,000	£80,499,000	+34.4
Market capitalisation	£103,372,000	£79,443,000	+30.1
Share price (mid market)	216.00p	166.00p	+30.1
Net Asset Value per share	225.99p	168.21p	+34.4
FTSE SmallCap Index (ex Investment Companies) (capital gains basis)	3,882.33	2,697.94	+43.9
Discount (difference between share price and net asset value)			
where borrowings are deducted at par	4.42%	1.31%	
Gearing			
Net gearing[A]	3.34%	1.94%	
Dividends and earnings			
Total return per share[B]	62.83p	30.08p	
Revenue return per share	5.43p	4.61p	+17.8
Dividends per share[C]	5.15p	5.00p	+3.0
Dividend cover (including proposed final dividend)	1.05	0.92	
Revenue reserves[D]	£4,347,000	£4,164,000	
Ongoing charges[E]			
Excluding performance fees	0.82%	0.98%	
Including performance fees	0.82%	1.14%	

[A] Calculated in accordance with AIC guidance "Gearing Disclosures post RDR" (see definition on page 50).
[B] Measures the total revenue and capital return for the year divided by the weighted average number of Ordinary shares in issue (see Income Statement).
[C] The figures for dividends per share reflect the years in which they were earned (see note 7 on page 37).
[D] The revenue reserve figure does not take account of the proposed final dividend amounting to £1,484,000 (2012 – £1,436,000).
[E] The ongoing charges figures have been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses divided by the average cum income net asset value throughout the year.

Performance

	1 year % return	3 year % return	5 year % return
Capital return			
Share price	+30.1	+72.1	+192.9
Net Asset Value per share	+34.4	+46.5	+150.8
FTSE SmallCap Index (ex Investment Companies)	+43.9	+54.3	+133.5
Total return (Capital return plus dividends paid)			
Share price	+33.8	+90.1	+258.7
Net Asset Value per share	+38.1	+60.2	+199.1
FTSE SmallCap Index (ex Investment Companies)	+47.8	+68.4	+173.3

Dividends

	Rate per share	xd date	Record date	Payment date
Proposed final dividend 2013	3.10p	15 January 2014	17 January 2014	11 February 2014
Interim dividend 2013	2.05p	3 July 2013	5 July 2013	26 July 2013
2013	**5.15p**			
Final dividend 2012	3.00p	16 January 2013	18 January 2013	11 February 2013
Interim dividend 2012	2.00p	11 July 2012	13 July 2012	27 July 2012
2012	**5.00p**			

Strategic Report - Performance

Total Return of NAV and Share Price vs FTSE SmallCap Index (ex Investment Companies)

Five years to 31 October 2013 (rebased to 100 at 31/10/08)

Share Price Discount/(Premium) to NAV (%)

Five years to 31 October 2013

Ten Year Financial Record

Year to 31 October	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue available for Ordinary dividends (£'000)	2,403	2,795	3,128	2,432[A]	2,517	1,525	1,939	2,556[B]	2,206	2,599
Per share (p)										
Net revenue return	2.9	3.4	3.8	4.5	5.2	3.2	4.1	5.3	4.6	5.4
Net dividends paid/proposed	2.80	3.08	3.55	4.25	4.50	4.50	4.60	4.85	5.00	5.15
Revenue reserve after payment of final dividend	2.40	2.75	3.05	6.44[A]	7.43	6.15	5.60	6.09	5.70	5.98
Net asset value	102.6	123.3	161.3	167.0	90.1	117.1	154.2	143.0	168.2	226.0
Total return	14.8	21.8	41.1	4.4	(73.6)	31.4	41.7	(6.5)	30.1	62.8
Shareholders' funds (£'000)	83,627	100,515	131,397	82,364	43,170	56,020	73,809	68,446	80,499	108,153

[A] The Tender Offer in November 2006 had an impact on both the income account for the year and the amount of revenue reserves available to remaining shareholders.

[B] Includes interest on VAT recovered.

The per share values for the years 2004 to 2006 have been adjusted by a factor of five to reflect the sub-division of the Ordinary 25p shares into five Ordinary 5p shares in November 2006.

The figures for 2005 for net asset value and shareholders' funds have been restated to reflect the changes in accounting policies (FRS 26 – Financial Instruments: Recognition and Measurement; FRS 21- Events after the Balance Sheet Date). The figures for dividends have not been restated and still reflect the dividends for the years in which they were earned.

Investment Portfolio – Ten Largest Investments

As at 31 October 2013

Company	Sector classification	Value of holding 2013 £'000	Total assets %	Value of holding 2012 £'000
RPC Group RPC is Europe's leading manufacturer of rigid plastic packaging. Their products are benefitting from regulatory driven substitution. Their ability to manufacture a broad array of different shapes and sizes combined with innovative printing and labelling techniques provides a barrier to the more volume orientated larger competitors.	General Industrials	4,712	4.2	3,264
Wilmington Group Wilmington is a provider of information and training services to a range of professional industries. The company benefits from a high level of recurring revenues and a focus on niche data that often provides good barriers to entry.	Media	4,507	4.0	2,600
XP Power XP Power is a leading designer and manufacturer of power convertors. The company has been benefiting from substantial gross margin expansion as they have focussed on selling more of their own rather than third party products. Sales are set to benefit over the medium term from recent investment in new product development.	Electronic & Electrical Equipment	4,367	3.9	2,650
Fenner Fenner is a specialist producer of advanced polymer solutions. Their business can broadly be split into two divisions. Conveyor belting sells to the mining and other industries. Advanced Engineered Products which manufactures a wide array of products that are all critical to the end product's performance whilst representing a low percentage of the end product's cost.	Industrial Engineering	4,200	3.7	3,100
Euromoney Institutional Investor Euromoney is a business to business publisher. More than half their revenues are subscription based and more than a third are from emerging markets. The information they sell is often business critical for their clients which provides them with a combination of pricing power and resilience during difficult markets.	Media	3,726	3.3	2,568
Bellway Bellway is a UK house builder. Management have shown themselves to be both cautious and astute and have managed the balance sheet in advance of deteriorating conditions. With an increasing proportion of their houses being built on land that has been purchased post the credit crunch there is a natural expansion in their margins waiting to flow through to profitability.	Household Goods & Home Construction	3,459	3.1	3,146
Morgan Sindall Morgan Sindall is a construction and fit out business. The company has four divisions. In construction and infrastructure they occupy a strong position with the utility companies. Fit Out where they are the market leader in the London market. In affordable housing they are able to utilise their construction expertise to deliver the mixed use schemes that local authorities want. Their regeneration business has been very successful in winning a number of very large projects that will provide revenue streams for many years.	Construction & Materials	3,350	3.0	2,798
Anite Software and services company primarily focused on Handset and Network testing for mobile phone manufacturers and network operators. The smaller Travel business provides software and booking systems for travel operators. Anite operates in a generally benign competitive environment has good growth potential alongside the continued rollout of new wireless communication standard Long Term Evolution (LTE).	Software & Computer Services	3,334	2.9	2,319
TT Electronics Manufacturer of electronic and electrical components for the automotive, telecommunications, aerospace and defence and industrial engineering sectors. The ongoing disposal of non-core assets is helping to focus the group on higher value-added products and is contributing to good revenue and profit growth.	Electronic & Electrical Equipment	3,329	2.9	2,234
Elementis Speciality chemicals manufacturer producing additives for the industrial coatings industry and niche chemicals for end markets as diverse as personal care products and oilfield applications. High margins and strong pricing power with products typically a very small percentage of end product's cost.	Chemicals	3,301	2.9	2,248
Ten largest investments		38,285	33.9	

Investment Portfolio – Other Investments

As at 31 October 2013

Company	Sector classification	Value of holding 2013 £'000	Total assets %	Value of holding 2012 £'000
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	3,278	2.9	2,931
Interserve	Support Services	3,205	2.8	2,036
Berendsen	Support Services	3,193	2.8	2,128
Oxford Instruments	Electronic & Electrical Equipment	3,135	2.8	2,782
Rathbone Brothers	Financial Services	3,121	2.8	1,698
Helical Bar	Real Estate Investment & Services	3,090	2.7	1,988
Bloomsbury Publishing	Media	3,065	2.7	1,549
BBA Aviation	Industrial Transportation	2,879	2.5	1,937
Fuller Smith & Turner 'A'	Travel & Leisure	2,855	2.5	2,326
Devro International	Food Producers	2,787	2.5	1,203
Twenty largest investments		**68,893**	**60.9**	
Ultra Electronic	Aerospace & Defence	2,456	2.2	2,150
Robert Walters	Support Services	2,233	2.0	1,483
Restaurant Group	Travel & Leisure	2,218	1.9	2,451
Savills	Real Estate Investment & Services	2,190	1.9	1,800
Huntsworth	Media	2,188	1.9	998
Acal	Support Services	2,177	1.9	823
Victrex	Chemicals	2,145	1.9	2,180
Fisher (James) & Sons	Industrial Transportation	2,128	1.9	1,496
Aveva Group	Software & Computer Services	2,096	1.9	1,720
Intermediate Capital Group	Financial Services	2,090	1.8	1,330
Thirty largest investments		**90,814**	**80.2**	
Barr (AG)	Beverages	2,009	1.8	1,708
Dignity	General Retailers	1,940	1.7	1,402
Greggs	Food & Drug Retailers	1,725	1.5	1,493
Hansteen Holdings	Real Estate Investment Trusts	1,699	1.5	–
Enquest	Oil & Gas Producers	1,669	1.5	–
Mothercare	General Retailers	1,662	1.5	1,607
Chesnara	Life Insurance	1,620	1.4	1,039
Numis Corp	Financial Services	1,584	1.4	973
Keller Group	Construction & Materials	1,492	1.3	1,389
Domino Printing	Electronic & Electrical Equipment	1,445	1.3	1,133
Forty largest investments		**107,659**	**95.1**	
McBride	Household Goods & Home Construction	1,434	1.3	1,795
Weir Group	Industrial Engineering	1,398	1.2	1,620
Menzies (John)	Support Services	1,355	1.2	1,078
Total investments		**111,846**	**98.8**	
Net current assets[A]		**1,307**	**1.2**	
Total assets		**113,153**	**100.0**	

[A] Excludes bank loan of £5,000,000 (2012 – £5,000,000).

Sector Analysis

As at 31 October 2013

		FTSE SmallCap Index (ex IC's) weighting %	Portfolio weightings 31 October 2013 %	31 October 2012 %
Basic Materials	Chemicals	0.85	4.87	5.38
	Industrial Metals	0.37	–	–
	Mining	3.45	–	–
		4.67	**4.87**	**5.38**
Consumer Goods	Beverages	–	1.80	2.08
	Food Producers	2.66	2.49	1.46
	Household Goods & Home Construction	2.53	4.37	7.38
	Leisure Goods	1.90	–	–
		7.09	**8.66**	**10.92**
Consumer Services	Food & Drug Retailers	–	1.54	1.81
	General Retailers	7.62	3.22	3.66
	Media	5.82	12.06	9.37
	Travel & Leisure	5.16	4.53	5.80
		18.60	**21.35**	**20.64**
Financials	Financial Services	0.63	6.08	4.86
	Life Insurance	1.43	1.45	1.26
	Non-life Insurance	1.16	–	–
	Real Estate Investment & Services	11.41	4.72	4.60
	Real Estate Investment Trusts	2.24	1.52	–
		16.87	**13.77**	**10.72**
Health Care	Health Care Equipment & Services	1.31	–	–
	Pharmaceuticals & Biotechnology	1.27	2.93	3.56
		2.58	**2.93**	**3.56**
Industrials	Aerospace & Defence	0.53	2.20	5.05
	Construction & Materials	5.82	4.33	5.09
	Electronic & Electrical Equipment	3.17	10.98	10.69
	General Industrials	0.59	4.21	3.97
	Industrial Engineering	3.51	5.01	5.73
	Industrial Transportation	3.58	4.48	4.17
	Support Services	19.12	10.87	9.17
		36.32	**42.08**	**43.87**
Oil & Gas	Alternative Energy	0.32	–	–
	Oil & Gas Producers	5.20	1.49	–
	Oil Equipment, Services & Distribution	2.12	–	–
		7.64	**1.49**	**–**
Technology	Software & Computer Services	5.20	4.85	4.91
	Technology Hardware & Equipment	1.03	–	–
		6.23	**4.85**	**4.91**
Total equities		**100.00**	**100.00**	**100.00**

Your Board of Directors

The Directors, all of whom are non-executive, are independent of the Manager, supervise the management of Dunedin Smaller Companies Investment Trust PLC and represent the interests of Shareholders.

The Earl of Dalhousie

Status: Independent Non-Executive Chairman
Age: 65
Length of service: 20 years, appointed a Director on 1 November 1993
Experience: formerly a director of Hambros Bank Ltd, Enskilda Securities and Capel-Cure Myers Capital Management
Last re-elected to the Board: 2 February 2012
Committee membership: Audit Committee, Management Engagement Committee and Nomination Committee
Remuneration: £23,944
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 20,000 5p Ordinary shares

T J K Barnes

Status: Independent Non-Executive Director
Age: 52
Length of service: 10 years, appointed a Director on 1 December 2003
Experience: formerly chief executive of Dobbies Garden Centres (part of Tesco plc) and a former investment banker
Last re-elected to the Board: 7 February 2013
Committee membership: Audit Committee, Management Engagement Committee and Nomination Committee
Remuneration: £17,967
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 17,825 5p Ordinary shares

R M Entwistle

Status: Independent Non-Executive Director and Senior Independent Director
Age: 69
Length of service: 15 years, appointed a Director on 18 December 1998
Experience: formerly chairman of Adam & Company and is a Fellow of the Chartered Institute of Bankers. He is also Chairman of Scoban PLC, a director of I & H Brown Ltd and a Trustee of the Victims Support Campaign Board.
Last re-elected to the Board: 23 February 2011
Committee membership: Audit Committee, Management Engagement Committee and Chairman of Nomination Committee
Remuneration: £17,967
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 40,000 5p Ordinary shares

N M Yarrow

Status: Independent Non-Executive Director
Age: 53
Length of service: 15 years, appointed a Director on 21 May 1998
Experience: is a former director of NVM Private Equity, a director of Weldex (International) Offshore Limited and Hillhouse Estates, a member of the Institute of Chartered Accountants of Scotland and Scottish Civic Trust
Last re-elected to the Board: 7 February 2013
Committee membership: Chairman of the Audit Committee and Management Engagement Committee and member of the Nomination Committee
Remuneration: £20,959
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 35,000 5p Ordinary shares

Directors' Report

Introduction

The current Directors, The Earl of Dalhousie, James Barnes, Ray Entwistle and Norman Yarrow, who held office throughout the year under review, were the only Directors who served during the year. The Directors present their report and audited financial statements for the year ended 31 October 2013.

The Company and its Objective

The Company is an investment trust and its Ordinary shares are listed on the premium segment of the London Stock Exchange. The Company aims to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust. The Company's objective is to achieve long term growth from a portfolio of smaller companies in the United Kingdom. A review of the Company's activities is given in the Strategic Report on pages 2 and 3. This includes the overall strategy of the business of the Company and its principal activities, main risks faced by the Company, likely future developments of the business, the recommended dividend and any details of acquisition of its own shares by the Company.

Status

The Company has been approved by HM Revenue & Customs ("HMRC") as an investment trust for the purposes of Sections 1158 - 1159 of the Corporation Tax Act 2010 ("Sections 1158 -1159") for the year ended 31 October 2012. During the year, the Company was approved by HMRC as an investment trust under Sections 1158 – 1159 and Part 2 Chapter 1 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 November 2012, subject to the Company continuing to meet the relevant eligibility criteria.

The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 October 2013 so as to be able to continue to obtain approval as an investment trust under Section 1158 of the Corporation Tax Act 2010 for that year.

The affairs of the Company were conducted in such a way as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

The Company is registered as a public limited company. The Company's registration number is SC014692. The Company has no employees and the Company makes no political donations.

Results and Dividends

The Directors recommend that a final dividend of 3.10p (2012 – 3.00p) is paid on 11 February 2014 to shareholders on the register on 17 January 2014. The ex-dividend date is 15 January 2014.

Management and Secretarial Agreements

The Company has an agreement with AAM for the provision of management services, details of which are shown in note 3 to the financial statements. The basic management fee is 0.4% per annum of adjusted gross assets. There is also a performance-related management fee calculated at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1.0% by which the Company's net asset value performance outperforms the capital performance of the benchmark index over the previous 12 month period. No performance fee was earned in respect of the year ended 31 October 2013. The agreement is terminable by either party on three months' notice.

The Company has an agreement with AAM for the provision of administrative and secretarial services, details of which are shown in note 4 to the financial statements.

Directors' & Officers' Liability Insurance

The Company maintains insurance in respect of Directors' & Officers' liabilities in relation to their acts on behalf of the Company. Furthermore, each Director of the Company shall be entitled to be indemnified out of the assets of the Company to the extent permitted by law against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. These rights are included in the Articles of Association of the Company and the Company has granted indemnities to the Directors on this basis.

Corporate Governance

The Statement of Corporate Governance which forms part of the Directors' Report is shown on pages 20 to 24.

Going Concern

The Company's assets consist substantially of equity shares in companies listed on the London Stock Exchange which are, in most circumstances, realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. Borrowings of £5 million are committed to the Company until 24 November 2014. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, for the above reasons, they continue to adopt the going concern basis in preparing the accounts.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 27, and 28 to 29.

Each Director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, he has taken all the steps that he could reasonably be expected to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. Additionally, there are no important events since the year end.

Independent Auditor

Following their intention to gradually wind down the activity in their registered firm, KPMG Audit Plc, KPMG have proposed that an alternative entity, KPMG LLP, become the Company's auditor. The change is purely administrative and there will be no adverse impact on investors' interests as a result.

Accordingly, KPMG have notified the Company that KPMG Audit Plc is not seeking reappointment and have provided a statutory statement of circumstances upon ceasing to hold office pursuant to section 519 of the Companies Act 2006. In accordance with section 520 of the 2006 Act, a copy of this statement is enclosed with the report and accounts. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning its appointment will be put to the forthcoming AGM of the Company. There is no impact on the terms in which the auditor will be retained.

The Directors have reviewed the level of non-audit services provided by the auditor during the year, together with the auditor's procedures in connection with the provision of such services, and remain satisfied that KPMG Audit Plc's objectivity and independence is being safeguarded.

Annual General Meeting

Amendment to Articles of Association

Resolution 10, which is an ordinary resolution, will be proposed to increase the limit on aggregate fees payable by the Company to the Directors under Article 79 to £150,000. The Directors wish to make provision in the event that the Board composition were to expand in number in the future and accordingly a base aggregate figure of £150,000 subject to any changes to the Retail Prices Index in any year (or such other amount as may from time to time be determined by ordinary resolution of the Company) is proposed.

Issue of New Shares and Treasury Shares

Under resolution 11, an ordinary resolution, it is proposed that, in line with common practice, the Directors be authorised to allot up to £789,645 in aggregate nominal value of shares and to grant relevant rights (as defined in that resolution) in relation to shares in the Company (equivalent to 15,792,915 ordinary shares of 5p, representing approximately 33% of the Company's issued share capital) without further reference to the Company in general meeting for a period ending at the conclusion of the AGM in 2015. The Directors have no current intention to utilise this authority.

Resolution 12, an ordinary resolution, seeks to renew the Directors' authority to sell or transfer Ordinary shares out of treasury for cash up to an aggregate nominal value of £119,643 (representing approximately 5% of the Company's issued share capital) after taking account of any shares issued pursuant to resolution 13. The Directors will be authorised to sell or transfer such shares at a price below the then prevailing net asset value of the shares provided always that the shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the shares were purchased at. Any dilution to the net asset value resulting from (b) above will be restricted to no more than 0.5% in any financial year. Resolution 12 is conditional on the passing of resolution 13.

The authority conferred by this resolution will give the Directors additional flexibility going forward, and the Directors consider that it will be in the interest of the Company that such authority be available. Such authority will only be implemented when, in the view of the Directors, to do so will be for the benefit of all shareholders. This authority will lapse at the conclusion of the AGM to be held in 2015.

Under Section 561 of the Companies Act 2006, where it is proposed to issue equity securities for cash, or to sell the shares out of treasury, they must first be offered to existing shareholders in proportion to their holdings. In some circumstances, it is beneficial to allot such securities for cash without first offering them in this way.

The Directors will therefore propose a special resolution (resolution 13) at the AGM which, if passed, will allow them to allot shares (and securities convertible into shares) for cash up to an aggregate nominal value of £119,643 as if Section 561(1) did not apply. This authority will lapse (unless renewed) at the conclusion of the AGM in 2015. New Ordinary shares would not be issued at a price that is less than the prevailing net asset value.

Share Repurchases

The Directors also propose a special resolution to seek renewed approval at the forthcoming AGM of the Company's authority to purchase its own Ordinary shares in the market (resolution 14). The maximum aggregate number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of the resolution. The minimum price which may be paid for an Ordinary share shall be 5p (being the nominal value). The maximum price (exclusive of expenses) which may be paid for the shares shall be the higher of: a) 5% above the average of the market values of the Ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and b) the higher of the price of the last independent trade and the highest current independent bid on the main market for the Ordinary shares.

The authority to buy back Ordinary shares, if conferred, will only be exercised if to do so would result in an increase in net asset value per Ordinary share for the remaining shareholders and if it is in the best interests of shareholders generally. If the Directors exercise the authority conferred by resolution 14, the Company will have the option of either holding the shares in treasury or of cancelling the shares, and will decide at the time of purchase which option to pursue.

This authority will last until the conclusion of the AGM of the Company to be held in 2015 (unless previously revoked, varied or renewed by the Company in general meeting). Any use by the Company of the authority to purchase shares will be by way of either a single purchase or a series of purchases, when market conditions allow.

Recommendation

Your Board considers the resolutions to be proposed at the AGM to be in the best interests of the Company and its members as a whole. Accordingly, your Board unanimously recommends that shareholders should vote in favour of the resolutions to be proposed at the AGM, as they intend to do so in respect of their own beneficial holdings, amounting to 112,825 Ordinary shares.

Additional Information

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by Part 15 of the Companies Act 2006:

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law).

The Company is not aware of any agreements between shareholders that may result in restriction on the transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 20 and 21. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Other than the management and administration contracts with the Manager, set out earlier in the report, the Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in the Directors' Report.

By order of the Board
Aberdeen Asset Management PLC
Secretary, Edinburgh
13 December 2013

Statement of Corporate Governance

Corporate Governance

This Statement of Corporate Governance forms part of the Directors' Report which is shown on pages 17 to 19.

Introduction

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the UK Corporate Governance Code ("UK Code") which is available on the Financial Reporting Council's website: www.frc.org.uk. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the UK Code.

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions. The AIC Code is available on the AIC's website: www.theaic.co.uk

Directors

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with the Manager. Each Director has the requisite high level and range of business and financial experience which enables the Board to provide clear and effective leadership and proper stewardship of the Company. Mr Entwistle is the Senior Independent Director. The Board meets at least four times each year, and more frequently when business needs require. The Board has a schedule of matters reserved to it for decision, and the requirement for Board approval on these matters is communicated directly to the senior staff of the Manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

The Board considers that the post of chief executive officer is not relevant for an investment trust company as this role has effectively been delegated to the Manager under the terms of the investment management agreement.

The Board has in place the necessary procedures (using questionnaires and discussion) to conduct, on an annual basis, an appraisal of the Chairman of the Board as well as a performance evaluation of the Board as a whole. The Board has also reviewed the Chairman's and Directors' other commitments and is satisfied that the Chairman and other Directors are capable of devoting sufficient time to the Company.

The Board has assessed the independence of the Directors against the criteria set out in the Codes, and has concluded that they are all independent of the Manager and free of any relationship which could materially interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct. The Board takes the view that independence is not compromised by length of tenure on the Board and that experience can add significantly to the Board's strength. In the case of The Earl of Dalhousie, Mr Entwistle, Mr Yarrow and Mr Barnes who have been Directors since 1993, 1998, 1998 and 2003 respectively, the Board takes the view that their independence has not been compromised by their length of service and that experience as well as a long-term perspective can add significant value to a well-balanced investment trust company board comprising of non-executive directors. In considering their independence, the Directors considered a number of factors including their experience, integrity and judgement of character. The Directors also recognised that the Directors have no connection with the Manager, are not professional advisers who have provided services to the Manager or the Board, do not serve on any other board of a company managed by the Manager or serve as directors on companies with any of the other Company's directors. For these reasons the Board (excluding the individual Directors) believes the Directors remain independent notwithstanding their length of service and has no hesitation in recommending the re-election of The Earl of Dalhousie, Mr Barnes and Mr Yarrow at the next AGM. As outlined in the Chairman's Statement, Mr Entwistle will retire from the Board with effect from the conclusion of the AGM.

The Directors have attended Board and Committee meetings during the year ended 31 October 2013 as follows (with their eligibility to attend the relevant meeting in brackets):

Director	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
The Earl of Dalhousie (Chairman)	4 (4)	2 (2)	1 (1)
T J K Barnes	4 (4)	2 (2)	1 (1)
R M Entwistle	4 (4)	2 (2)	1 (1)
N M Yarrow	4 (4)	2 (2)	1 (1)

Between meetings the Board maintains regular contact with the Manager.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice and services of the Company Secretary, Aberdeen Asset Management PLC, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Appointments to the Board of Directors are considered by the whole Board. Possible new Directors are identified against the requirements of the Company's business and the need to have a balanced Board which reflects a breadth of commercial, professional and industrial experience to complement existing Directors. In considering appointments, the Board also takes into account the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. However the Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. Therefore, the Board has not set any measurable objectives in relation to the diversity of the Board. External search consultants may be used to ensure that a wide range of candidates can be considered. Every Director is entitled to receive appropriate training as deemed necessary. A Director is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the first AGM following his or her appointment. The Articles also require that one third of the Directors retire by rotation each year and seek re-election at the AGM. In addition, all Directors are required to submit themselves for re-election at least every three years. Directors with more than nine years' service will be required to submit themselves for annual re-election.

There is a formal process for the consideration and authorisation by the Board of Directors' reported actual and potential conflicts of interest, a full analysis of the Directors' appointments and interests is considered at each Board meeting. In accordance with the Company's Articles of Association and relevant legislation, each Director abstains from approval of their own position. The Board will continue to monitor and review potential conflicts of interests on a regular basis.

The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a zero tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption.

Internal Controls and Risk Management

The design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly extends to operational and compliance controls and risk management. The Board has prepared its own risk register which identifies potential risks relating to strategy; investment management; shareholders; marketing; gearing; regulatory & financial obligations; third party service providers and the Board. The Board considers the potential cause and possible impact of these risks as well as reviewing the controls in place to mitigate these potential risks. A risk is rated by having a likelihood and an impact rating and the residual risk is plotted on a "heat map" and is reviewed regularly.

The Board is ultimately responsible for the Company's system of internal control and risk management and for reviewing its effectiveness. The Board confirms that as at 31 October 2013 there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that it has been in place for the year ended 31 October 2013 and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Board and accords with the internal control guidance for directors in the UK Code.

The Board has reviewed the effectiveness of the Manager's system of internal control and risk management. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance.

The key components designed to provide effective internal control are outlined below:

- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- as a matter of course the Manager's compliance department continually reviews the Manager's operations;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers; and
- at its December 2013 meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2013 by considering documentation from the Manager, including the internal audit and compliance functions and taking account of events since 31 October 2013. The results of the assessment were then reported to the Board at the next Board meeting.

The system of internal control and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the system of internal control and risk is designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Board Committees

The Directors have appointed a number of Committees as set out below. Copies of their terms of reference, which clearly define the responsibilities and duties of each Committee, are available upon request from the Company and are on the Company's website.

Audit Committee

The Directors have appointed an Audit Committee which meets not less than twice per year. The Audit Committee operates within clearly defined written terms of reference and comprises the entire Board with Mr Yarrow acting as Chairman.

The Directors have satisfied themselves that at least one of the Committee's members has recent and relevant financial experience – Mr Yarrow is a member of the Institute of Chartered Accountants of Scotland.

Role of the Audit Committee

In summary, the Audit Committee's main functions are:

- to review and monitor the internal control systems and risk management systems (including review of non financial risks) on which the Company is reliant (the Directors' statement on the Company's internal controls and risk management is set out of pages 21 to 22);
- to consider whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager and Administrator;
- to review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, interim reports, announcements and related formal statements;
- to review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- to meet with the auditor to review the proposed audit programme of work and the findings of the auditor. The Directors shall also use this as an opportunity to assess the effectiveness of the audit process;
- to develop and implement policy on the engagement of the auditor to supply non-audit services. The non-audit fee of £5,000 paid to the auditor during the year under review was for the interim review. The Committee will review any future fees in the light of the requirement to maintain the auditor's independence;
- to review a statement from the Manager detailing the arrangements in place within AAM whereby AAM staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations in relation to the appointment of the auditor and to approve the remuneration and terms of engagement of the auditor;
- to monitor and review the auditor's independence, objectivity, effectiveness, resources and qualification; and,
- recommending to the Board and shareholders the appointment of KPMG LLP to succeed KPMG Audit Plc as the independent auditor of the Company.

Significant Issues

During its review of the Company's financial statements for the year ended 31 October 2013, the Audit Committee considered the following significant issues, in particular those communicated by the auditor during their reporting:

Valuation, Existence and Ownership of Investments

How the issue was addressed - The valuation of investments is undertaken in accordance with the accounting policies, disclosed in notes 1(a) and 1(c) to the accounts on page 34. The audit includes independent confirmation of the existence of all investments. All investments are considered liquid and quoted in active markets and have been categorised as Level 1 within the FRS 29 fair value hierarchy.

Other Issues

Recognition of Investment Income

How the issue was addressed - The recognition of investment income is undertaken in accordance with accounting policy note 1(b) to the accounts on page 34. The audit includes an analytical review of the Company by comparing income received to its stated benchmark.

Compliance with Sections 1158 and 1159

How the issue was addressed - Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st November 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

Going Concern

How the issue was addressed -The Directors have considered the Company's investment objective and risk management policies, the nature of the portfolio and expenditure and cash flow projections. As a result, they have determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future.

Review of Auditor

The Audit Committee has reviewed the effectiveness of the auditor including:

- independence (the auditor discusses with the Audit Committee, at least annually, the steps it takes to ensure its independence and objectivity and makes the Committee aware of any potential issues, explaining all relevant safeguards).
- quality of audit work including the ability to resolve issues in a timely manner (identified issues are satisfactorily and promptly resolved), its communications/presentation of outputs (the explanation of the audit plan, any deviations from it and the subsequent audit findings are comprehensive and comprehensible), and working relationship with management (the auditor has a constructive working relationship with the Manager)
- quality of people and service including continuity and succession plans (the audit team is made up of sufficient, suitably experienced staff with provision made for knowledge of the investment trust sector and retention on rotation of the partner)

KPMG Audit Plc has held office as auditor for 18 years; in accordance with professional guidelines the audit director is rotated after at most five years, and the current audit director has served for two years. The Committee considers KPMG Audit Plc, the Company's auditor, to be independent of the Company.

KPMG Audit Plc has instigated an orderly wind down of its business and KPMG LLP, the successor entity to KPMG Audit Plc, will be proposed as auditor at the AGM. The Audit Committee is satisfied that KPMG LLP is independent and that it would not be appropriate to put the audit appointment out to tender at the present time. The Audit Committee therefore supports the recommendation to the Board that the appointment of KPMG LLP be put to shareholders for approval at the AGM.

Shareholders have the opportunity at each AGM to vote on the reappointment of the auditor for the forthcoming year.

Management Engagement Committee

The Directors have appointed a Management Engagement Committee. All of the Directors are members of the Management Engagement Committee and Mr Yarrow is the Chairman. The Committee reviews the performance of the Manager and its compliance with the terms of the management and secretarial agreement. The terms and conditions of the Manager's appointment, including an evaluation of performance and fees, are reviewed by the Committee on an annual basis. The Committee believes that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Nomination Committee

Given the size of the Board, the Board as a whole acts as a Nomination Committee with the Senior Independent Director acting as Chairman.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The Annual Report and Accounts are widely distributed to other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through its website, www.dunedinsmaller.co.uk and the Manager's freephone information service and the

Statement of Corporate Governance continued

Company responds to letters from shareholders on a wide range of issues.

The notice of the AGM included within the Annual Report and Accounts is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions at the Company's AGM.

Substantial Interests

At 31 October 2013 the following were registered or had notified the Company as being interested in 3% or more of the Company's Ordinary share capital:

Name of shareholder	Number of Ordinary shares held	% of Ordinary shares held
Aberdeen Investment Trust Savings Plans[A]	12,661,321	26.5
Aberdeen Asset Managers[A]	8,480,000	17.7
Derbyshire County Council	3,269,000	6.8
DC Thomson & Company Ltd	2,030,000	4.2

[A] Non-beneficial interests

There have been no changes notified in respect of the above holdings, and no new holdings notified, since the end of the year.

Share Capital and Voting Rights

The total number of Ordinary shares of 5p of the Company in issue at 31 October 2013 was 47,857,317 with each share holding one voting right.

Proxy Voting as an Institutional Shareholder

Responsibility for actively monitoring the activities of investee companies has been delegated by the Board to the Manager. The Manager's Corporate Governance Principles can be found on the Manager's website, at http://www.aberdeen-asset.com/aam.nsf/AboutUs/governancestewardship. This document sets out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to the companies in which the Manager has invested or is considering investing. The Manager's Statement of Compliance with the UK Stewardship Code also appears on the Manager's website, at the web address given above.

The Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee company, and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The Manager's policy is to vote on all shares held by the Company and the Board receives from the Manager regular reports on the exercise by the Manager of the Company's voting rights and discusses with the Manager any issues arising. It is the Board's view that having an active voting policy and a process for the monitoring by the Board of the Manager's exercise of those votes, especially in relation to controversial issues, aids the efficient exercise of the Company's governance responsibilities.

Corporate Governance and Socially Responsible Investment Policy

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner. The Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area. The Company's ultimate objective is to deliver superior long-term returns for our shareholders which we believe will be produced on a sustainable basis by investments in companies which adhere to best practice in the area of Corporate Governance. Accordingly, the Manager will seek to favour companies which pursue best practice in the above area.

Declaration

The Directors listed on pages 15 and 16, being the persons responsible, hereby confirm to the best of their knowledge:

- that the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- that in the opinion of the Directors, the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Dalhousie

The Earl of Dalhousie
Chairman
13 December 2013

Directors' Remuneration Report

The Board has prepared this report in accordance with the new regulations governing the disclosure and approval of Directors' remuneration. This Remuneration Report comprises two parts:

(i) Remuneration Policy, which will be subject to a binding shareholder vote to be put to the members at the forthcoming AGM in the first instance and then every three years thereafter. Should the Remuneration Policy be varied during this interval, then Shareholder approval for the new Remuneration Policy will be sought; and
(ii) An annual report on the implementation of remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory vote on the level of remuneration paid during the year as set out in the Implementation Report.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the report on page 28.

The fact that the Remuneration Policy will now be subject to a binding vote does not imply any change on the part of the Company. The principles remain the same as for previous years. There have been no changes to the Directors' Remuneration Policy during the period of this Report nor are there any proposals for the foreseeable future, except for the aggregate fee increase and Directors' fees, as set out in the Implementation Report below.

Remuneration Policy

This part of the Remuneration Report provides details of the Company's Remuneration Policy for Directors of the Company. This policy takes into consideration the principles of UK Corporate Governance and the AIC's recommendations regarding the application of those principles to investment companies. As the Company has no employees and the Board is comprised wholly of non-executive Directors and given the size and nature of the Company, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole.

The Directors are non-executive and their fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The level of cap may be increased by shareholder resolution from time to time. Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the nature of their duties, responsibilities and the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective.

Fees are annually reviewed against RPI and if considered appropriate, increased accordingly.

	1 July 2013 £	1 July 2012 £
Chairman	24,250	23,690
Chairman of Audit Committee	21,415	20,730
Director	18,340	17,780

Appointment

- The Company only intends to appoint non-executive Directors.
- All the Directors are non-executive appointed under the terms of Letters of Appointment.
- Directors must retire and be subject to re-election at the first AGM after their appointment, and at least every three years thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £18,340).
- No incentive or introductory fees will be paid to encourage a Directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- No Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

It is intended that, if approved, the Remuneration Policy will take effect at the conclusion of the AGM on 6 February 2014.

Implementation Report

Aggregate Fees Increase

Article 79 of the Company's Articles of Association currently limits the aggregate fees payable to the Board of Directors to a total of £100,000 per annum subject to any changes to the Retail Prices Index in any year (or such other amount as may from time to time be determined by ordinary resolution of the Company). A resolution is to be proposed to shareholders at the next AGM to increase the limit on aggregate fees payable to £150,000. The Directors wish to make provision in the event that the Board composition were to expand in number in future. Accordingly resolution 10, an ordinary resolution, proposes an aggregate figure of £150,000 per annum subject to any changes to the Retail Prices Index in any year (or such other amount as may from time to time be determined by ordinary resolution of the Company).

Directors' Fees Increase

The Board carried out a review of the level of Directors' fees during the year and concluded that the amounts should be increased in line with RPI (3.3%) to £24,450, £21,415 and £18,340 for the Chairman, Audit Committee Chairman and remaining Directors respectively, effective from 1 July 2013. There are no further fees to disclose as the Company has no employees, Chief Executive or Executive Directors.

Company Performance

Also during the year the Board carried out a review of investment performance. The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return from the FTSE SmallCap Index (excluding Investment Companies) for the five year period to 31 October 2013 (rebased to 100 at 31 October 2008). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

Statement of Voting at General Meeting

At the Company's last AGM, held on 7 February 2013, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 October 2012. 99.0% of votes were in favour of the resolution, 0.9% were against, and 0.1% abstained.

Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors is shown below.

Audited Information

Fees Payable

The Directors who served in the year received the following fees which exclude employers' NI and any VAT payable:

Director	2013 £	2012 £	Taxable Benefits 2013	Taxable Benefits 2012
The Earl of Dalhousie	23,944	23,217	-	-
T J K Barnes	17,967	17,420	-	-
R M Entwistle	17,967	17,420	-	-
N M Yarrow	20,959	20,317	-	-
Total	**80,837**	**78,374**	-	-

Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties from the fees referred to in the table above.

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company.

The Directors (including connected persons) at 31 October 2013 and 1 November 2012 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table below.

	31 Oct 2013 Ord 5p	31 Oct 2012 Ord 5p
The Earl of Dalhousie	20,000	20,000
T J K Barnes	17,825	17,825
R M Entwistle	40,000	40,000
N M Yarrow	35,000	35,000

The Directors' Remuneration Report was approved by the Board of Directors on 13 December 2013 and signed on its behalf by: Dalhousie

The Earl of Dalhousie
Chairman
13 December 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report & Accounts and the financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

For and on behalf of the Board of Dunedin Smaller Companies Investment Trust PLC

Norman Yarrow
Chairman of the Audit Committee
13 December 2013

Independent Auditor's Report to the Members of Dunedin Smaller Companies Investment Trust PLC

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC for the year ended 31 October 2013 set out on pages 30 to 45. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2013 and of its return for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, ~~the risk of~~ material misstatement that had the greatest effect on our audit was as follows:

Valuation and existence of investments: The Company's portfolio investments make up 98.8 % of total assets (by value) and are considered to be the key driver of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgment because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit. Our procedures over the existence, completeness and valuation of the Company's investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- agreeing the valuation of 100% of portfolio investments to externally quoted prices; and
- agreeing 100% of portfolio investment holdings to independently received third party confirmations.

Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £1.135m. This has been calculated using a benchmark of Total Assets. Total Assets, which is primarily composed of the company's investment portfolio, is considered the key driver of the company's capital and revenue performance and, as such, we consider it to be one of the principal considerations for members of the company in assessing the financial performance of the company.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £57,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the office of the administrator.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; or
- the "Significant Issues" section of the Statement of Corporate Governance on page 23 does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 17, in relation to going concern;
- the part of the Corporate Governance Statement on pages 20 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Phil Merchant

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh

13 December 2013

Income Statement

	Notes	Year ended 31 October 2013 Revenue return £'000	Capital return £'000	Total return £'000	Year ended 31 October 2012 Revenue return £'000	Capital return £'000	Total return £'000
Gains on investments	9	–	27,846	27,846	–	12,628	12,628
Income	2	3,092	–	3,092	2,716	–	2,716
Investment management fees	3	(101)	(302)	(403)	(79)	(351)	(430)
Administrative expenses	4	(367)	–	(367)	(401)	–	(401)
Net return before finance costs and taxation		2,624	27,544	30,168	2,236	12,277	14,513
Finance costs	5	(25)	(73)	(98)	(30)	(88)	(118)
Return on ordinary activities before taxation		2,599	27,471	30,070	2,206	12,189	14,395
Taxation	6	–	–	–	–	–	–
Return on ordinary activities after taxation		**2,599**	**27,471**	**30,070**	**2,206**	**12,189**	**14,395**
Return per Ordinary share (pence)	8	**5.43**	**57.40**	**62.83**	**4.61**	**25.47**	**30.08**

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the financial statements.

Balance Sheet

	Notes	As at 31 October 2013 £'000	As at 31 October 2012 £'000
Non-current assets			
Investments at fair value through profit or loss	9	111,846	82,318
Current assets			
Debtors and prepayments	10	286	700
Cash and short term deposits	15	1,387	3,442
		1,673	4,142
Creditors: amounts falling due within one year			
Bank loan	11,15	(5,000)	(5,000)
Other creditors	11	(366)	(961)
		(5,366)	(5,961)
Net current liabilities		(3,693)	(1,819)
Net assets		**108,153**	**80,499**
Capital and reserves			
Called-up share capital	12	2,393	2,393
Share premium account		30	30
Capital redemption reserve		2,233	2,233
Capital reserve	13	99,150	71,679
Revenue reserve		4,347	4,164
Equity shareholders' funds		**108,153**	**80,499**
Net asset value per Ordinary share (pence)	16	**225.99**	**168.21**

The financial statements were approved by the Board of Directors and authorised for issue on 13 December 2013 and were signed on its behalf by:

Dalhousie

The Earl of Dalhousie
Director

The accompanying notes are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 October 2013

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve[A] £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2012		2,393	30	2,233	71,679	4,164	80,499
Return on ordinary activities after taxation		–	–	–	27,471	2,599	30,070
Dividends paid	7	–	–	–	–	(2,416)	(2,416)
Balance at 31 October 2013		**2,393**	**30**	**2,233**	**99,150**	**4,347**	**108,153**

For the year ended 31 October 2012

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve[A] £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2011		2,393	28	2,233	59,490	4,302	68,446
Exercise of Subscription shares		–	2	–	–	–	2
Return on ordinary activities after taxation		–	–	–	12,189	2,206	14,395
Dividends paid	7	–	–	–	–	(2,344)	(2,344)
Balance at 31 October 2012		**2,393**	**30**	**2,233**	**71,679**	**4,164**	**80,499**

[A] See note 13 for further details on the capital reserve.

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

	Notes	Year ended 31 October 2013 £'000	£'000	Year ended 31 October 2012 £'000	£'000
Net cash inflow from operating activities	14		2,315		1,896
Servicing of finance					
Interest paid			(100)		(116)
Financial investment					
Purchases of investments		(15,269)		(12,361)	
Sales of investments		13,415		9,425	
Net cash outflow from financial investment			(1,854)		(2,936)
Equity dividends paid	7		(2,416)		(2,344)
Net cash outflow before use of liquid resources and financing			(2,055)		(3,500)
Net cash inflow from management of liquid resources			–		1,000
Net cash outflow before financing			(2,055)		(2,500)
Financing					
Exercise of Subscription shares		–		2	
Net cash inflow from financing			–		2
Decrease in cash	15		**(2,055)**		**(2,498)**

	Notes	£'000	£'000
Reconciliation of net cash flow to movements in net debt			
Decrease in cash as above		(2,055)	(2,498)
Net change in liquid resources		–	(1,000)
Movement in net debt resulting from cash flows		(2,055)	(3,498)
Opening net (debt)/funds		(1,558)	1,940
Closing net debt	15	**(3,613)**	**(1,558)**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements For the year ended 31 October 2013

1. Accounting policies

(a) Basis of preparation and going concern

The financial statements have been prepared in accordance with the applicable UK Accounting Standards and with the Statement of Recommended Practice: 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

The financial statements have been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements, and the net asset value per share figures, have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

The Company's assets consist substantially of equity shares in companies listed on the London Stock Exchange and in most circumstances are realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. Borrowings of £5 million are committed to the Company until 24 November 2014. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, for the above reasons, they continue to adopt the going concern basis in preparing the financial statements.

(b) Revenue, expenses and interest payable

Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to revenue or capital according to the circumstances. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short term deposits, expenses and interest payable are accounted for on an accruals basis.

Expenses are charged to capital when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated between revenue and capital in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see notes 3 and 5). Performance fees are allocated wholly to capital.

(c) Investments

Investments have been designated upon initial recognition at fair value through profit or loss. Investments are recognised at trade date where a purchase or sale is under contract whose terms require delivery within the timeframe established by the market concerned, and are measured initially at fair value. Subsequent to initial recognition, investments are recognised at fair value through profit or loss. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks, sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all FTSE All-Share and the most liquid AIM constituents. Gains or losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Income Statement and are ultimately recognised in the capital reserve.

(d) Dividends payable

Interim and final dividends are recognised in the period in which they are paid.

(e) Capital reserve

Gains and losses on the sale of investments and changes in fair values of investments held are transferred to the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this reserve. Performance fees are allocated wholly to capital.

(f) Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the Balance Sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

2.	Income	2013 £'000	2012 £'000
	Income from investments[A]		
	UK dividend income	2,859	2,495
	Overseas dividend income	143	126
	UK stock dividend income	66	66
	Property income distributions	15	–
		3,083	2,687
	Other income[B]		
	Deposit interest	9	25
	Underwriting commission	–	4
		9	29
	Total income	3,092	2,716

[A] All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

[B] Other income on financial assets not designated fair value through profit or loss.

			2013			2012	
		Revenue	Capital	Total	Revenue	Capital	Total
3.	**Investment management fees**	£'000	£'000	£'000	£'000	£'000	£'000
	Investment management fees	101	302	403	79	236	315
	Performance fees	–	–	–	–	115	115
		101	302	403	79	351	430

The investment management fee paid to the Manager is calculated at 0.4% per annum of the gross assets of the Company after deducting current liabilities and excluding commonly managed funds ('adjusted gross assets').

In addition, the Manager is entitled to a performance-related fee calculated quarterly in arrears at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1% by which the Company's net asset value performance outperforms the capital performance of the FTSE SmallCap Index (ex Investment Companies) over the twelve month period.

The management agreement between the Company and the Manager is terminable by either party on three months' notice.

The management fee is chargeable 75% to capital and 25% to revenue. The performance-related management fee is allocated wholly to capital.

4. Administrative expenses	2013 £'000	2012 £'000
Directors' fees	81	78
Auditor's remuneration:		
• fees payable to the Company's auditor for the audit of the Company's annual accounts	15	15
• fees payable to the Company's auditor for the review of the Company's half-yearly accounts	5	4
Secretarial fee	96	93
Marketing	40	37
Share Plan costs	22	42
Registrar's fees	12	21
Advisory fees	33	40
Legal fees	23	1
Other expenses	40	70
	367	**401**

The secretarial fee of £96,000 (2012 – £93,000) was paid to the Manager.

Marketing expenses of £40,000 (2012 – £37,000) were paid to the Manager in respect of marketing and promotion of the Company.

All of the expenses above, with the exception of Auditor's remuneration, include irrecoverable VAT where applicable. For Auditor's remuneration VAT on total fees amounted to £4,000 (2012 – £4,000) and is included within other expenses above. The prior year expenses have been restated to take account of irrecoverable VAT, though the overall total value remains unchanged.

5. Finance costs	2013 Revenue £'000	 Capital £'000	 Total £'000	2012 Revenue £'000	 Capital £'000	 Total £'000
Financial liabilities not at fair value through profit or loss:						
Bank loan interest	25	73	98	30	88	118

6. Taxation

There is no liability to corporation tax for the year (2012 – £nil).

The corporation tax rate was 24% until 31 March 2013 and 23% from 1 April 2013, giving an effective rate for the financial year of 23.42% (2012 – 24.83%).

Factors affecting tax charge for the year	2013 £'000	2012 £'000
Return on ordinary activities before taxation	30,070	14,395
Tax thereon at 23.42% (2012 – 24.83%)	7,042	3,574
Effects of:		
Non taxable UK dividends	(670)	(620)
Non taxable overseas dividends	(33)	(31)
Non taxable UK stock dividends	(15)	(16)
Income taxable in different periods	(3)	–
Gains on investments not taxable	(6,522)	(3,136)
Excess expenses not utilised	202	229
Expenses not deductible for tax purposes	(1)	–
	–	–

At the year end, the Company had surplus management expenses and loan relationship losses of £28,096,000 (2012 – £27,242,000). These have been generated due to a large part of the Company's income being derived from dividends from UK companies. The Company is not expected to generate taxable income in a future period in excess of deductible expenses for that period and, accordingly, is unlikely to be able to reduce future tax liabilities by offsetting these losses. These losses are not recognised as a deferred tax asset.

7. Dividends	2013 £'000	2012 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2012 – 3.00p (2011 – 2.90p)	1,436	1,388
Interim dividend for 2013 – 2.05p (2012 – 2.00p)	981	957
Return of unclaimed dividends	(1)	(1)
Dividends paid in the year	**2,416**	**2,344**

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The table below sets out the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,599,000 (2012 – £2,206,000).

	2013 £'000	2012 £'000
Interim dividend for 2013 – 2.05p (2012 – 2.00p)	981	957
Proposed final dividend for 2013 – 3.10p (2012 – 3.00p)	1,484	1,436
	2,465	2,393

Notes to the Financial Statements continued

8. Return per Ordinary share	2013 p	2012 p
Revenue return	5.43	4.61
Capital return	57.40	25.47
Total return	**62.83**	**30.08**
Weighted average number of Ordinary shares in issue	**47,857,317**	**47,856,631**

9. Investments – Fair value through profit or loss	Listed in UK 2013 £'000	Listed in UK 2012 £'000
Opening fair value	82,318	66,443
Opening fair value gains on investments held	(19,746)	(9,378)
Opening book cost	62,572	57,065
Purchases at cost	14,664	13,105
Sales – proceeds	(12,982)	(9,858)
Sales – gains on sales	4,928	2,260
Closing book cost	69,182	62,572
Closing fair value gains on investments held	42,664	19,746
Closing fair value	**111,846**	**82,318**

Gains on investments	2013 £'000	2012 £'000
Gains on sales of equities	4,928	2,260
Movement in fair value gains on investments held	22,918	10,368
	27,846	**12,628**

Transaction costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:

	2013 £'000	2012 £'000
Purchases	89	71
Sales	14	11
	103	**82**

10. Debtors: amounts falling due within one year	2013 £'000	2012 £'000
Amounts due from stockbrokers	–	433
Net dividends and interest receivable	274	252
Other debtors and prepayments	12	15
	286	**700**

11. Creditors: amounts falling due within one year

(a) Bank loan

The Company has a three year revolving credit agreement, expiring on 24 November 2014, with Scotiabank Europe for up to £5 million. At the year end the facility was drawn down in full (2012 – in full) at a rate of 1.94395% (2012 – 1.95991%). The terms of the loan facility contain covenants that the minimum net assets of the Company must exceed £35 million and the percentage of borrowings against net assets must not be more than 25%.

On 29 November 2013 the loan facility remained drawn down in full and rolled over until 31 January 2014 at a rate of 1.95741%.

(b) Other creditors	2013 £'000	2012 £'000
Amounts due to stockbrokers	139	744
Investment management fee	112	84
Interest payable	–	2
Sundry creditors	115	131
	366	**961**

12. Called-up share capital	2013 £'000	2012 £'000
Allotted, called-up and fully paid:		
47,857,317 (2012 – 47,857,317) Ordinary shares of 5p each	2,393	2,393

During the year there were no Ordinary shares of 5p each (2012 – nil) bought back for cancellation.

13. Capital reserve	2013 £'000	2012 £'000
At 1 November	71,679	59,490
Gains on realisation of investments at fair value	4,928	2,260
Movement in fair value gains on investments held	22,918	10,368
Investment management fees	(302)	(351)
Finance costs	(73)	(88)
At 31 October	**99,150**	**71,679**

The capital reserve includes investment holding gains amounting to £42,664,000 (2012 – £19,746,000), as disclosed in note 9.

14. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities	2013 £'000	2012 £'000
Net return on ordinary activities before finance costs and taxation	30,168	14,513
Adjustment for:		
Gains on investments	(27,846)	(12,628)
Increase in accrued income	(22)	(19)
Decrease/(increase) in other debtors	3	(7)
Increase in other creditors	12	37
Net cash inflow from operating activities	**2,315**	**1,896**

Notes to the Financial Statements continued

15. Analysis of changes in net debt	At 1 November 2012 £'000	Cash flow £'000	At 31 October 2013 £'000
Cash and short term deposits	3,442	(2,055)	1,387
Bank loan	(5,000)	–	(5,000)
Net debt	**(1,558)**	**(2,055)**	**(3,613)**

16. Net asset value per share	2013	2012
Equity shareholders' funds	£108,153,000	£80,499,000
Number of Ordinary shares in issue at year end	47,857,317	47,857,317
Equity shareholders' funds per share	225.99p	168.21p

The movements during the year of the assets attributable to the Ordinary shares were as follows:

	2013 £'000	2012 £'000
Opening net assets	80,499	68,446
Capital return for the year	27,471	12,189
Revenue on ordinary activities after taxation	2,599	2,206
Dividends paid in the year	(2,416)	(2,344)
Exercise of Subscription shares	–	2
Closing net assets	**108,153**	**80,499**

17. **Financial instruments**

The Company's objective is to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

The impact of security price volatility is reduced by diversification. Diversification is achieved by investment in the stocks and shares of companies in a range of industrial, commercial and financial sectors. The management of the portfolio is conducted according to investment guidelines, established by the Board after discussion with the Manager, which specify the limits within which the Manager is authorised to act.

The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions for the purpose of managing currency and market risks arising from the Company's activities.

The Manager has a dedicated investment management process, which ensures that the investment policy explained on page 2 is followed. Stock selection procedures are in place based on the active portfolio management and identification of stocks. The portfolio is reviewed on a periodic basis by a senior investment manager and also by the Manager's investment committee.

The Company's Manager has an independent investment risk department which reviews the investment risk parameters of the Company's portfolio on a regular basis. The department reports to the Manager's Performance Review Committee which is chaired by the Manager's chief investment officer. The department's responsibility is to review and monitor ex-ante (predicted) portfolio risk and style characteristics using best practice, industry standard multi-factor models.

Additionally, the Manager's compliance department continually monitors the Company's investment and borrowing powers and reports to the Manager's risk management committee.

The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors, other than for currency disclosures.

(i) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

It is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed, funds are invested in equities, the effect is to magnify the impact on shareholders' funds of changes – both positive and negative – in the value of the portfolio.

The Company's borrowings comprise a three year £5 million revolving credit agreement facility. Details of borrowings as at 31 October 2013 are shown in note 11.

Interest risk profile

The interest rate risk profile of the portfolio of financial assets and liabilities at the Balance Sheet date was as follows:

At 31 October 2013	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	–	0.29	1,387	–
Total assets	**–**	**–**	**1,387**	**–**
Liabilities				
Bank loans	0.08	1.94	–	(5,000)
Total liabilities	**–**	**–**	**–**	**(5,000)**

At 31 October 2012	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	–	0.54	3,442	–
Total assets	–	–	3,442	–
Liabilities				
Bank loans	0.07	1.96	–	(5,000)
Total liabilities	–	–	–	(5,000)

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans. The maturity dates of the Company's loans are shown in note 11 to the financial statements.

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates.

The Company's equity portfolio and short-term debtors and creditors (excluding bank loans) have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Maturity profile

The maturity profile of the Company's financial assets and liabilities at the Balance Sheet date was as follows:

At 31 October 2013	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Short term bank loan	(5,000)	–
Floating rate		
Cash	1,387	–
	(3,613)	–

At 31 October 2012	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Short term bank loan	(5,000)	–
Floating rate		
Cash	3,442	–
	(1,558)	–

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the Balance Sheet date and with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

- profit for the year ended 31 October 2013 would increase/decrease by £36,000 (2012 – increase/decrease by £16,000). This is mainly attributable to the Company's exposure to interest rates on its short term bank loan and floating rate cash balances.
- the Company holds no financial instruments that will have an equity reserve impact.

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives.

Other price risk

Other price risks (i.e. changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process, as detailed on page 46, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on the London Stock Exchange.

Other price risk sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary shareholders for the year ended 31 October 2013 would have increased/decreased by £11,185,000 (2012 – £8,232,000). This is based on the Company's equity portfolio at each year end.

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the other price risk management process used to meet the Company's objectives.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not considered to be significant as the Company's assets comprise mainly cash, short term deposits, placements and listed securities, which can be sold or realised to meet funding commitments if necessary.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions, and reviews these on a regular basis. Borrowings comprise a revolving credit agreement facility. At the year end the Company had borrowings of £5 million and this amount is reviewed on an ongoing basis. Details of borrowings at 31 October 2013 are shown in note 11.

Short-term flexibility is achieved through the use of loan and overdraft facilities, details of which can be found in note 11. Under the terms of the loan facility, the Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facility are not being breached. The Manager will also review the credit rating of a lender on a regular basis. Details of the Board's policy on gearing is shown in the interest rate risk section of this note.

(iii) Credit risk

This is failure of the counterparty to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

The risk is managed as follows:

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodians' records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee. This review will also include checks on the maintenance and security of investments held;
- cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 October 2013 was as follows:

	2013		2012	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	111,846	111,846	82,318	82,318
Current assets				
Trades and other receivables	12	12	448	448
Accrued income	274	274	252	252
Cash and cash equivalents	1,387	1,387	3,442	3,442
	113,519	**113,519**	**86,460**	**86,460**

None of the Company's financial assets are past due or impaired.

Fair values of financial assets and financial liabilities

The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at fair value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

18. Fair value hierarchy

FRS 29 'Financial Instruments: Disclosures', requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (ie as prices) or indirectly (ie derived from prices); and

Level 3: Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Company's investments are in quoted equities (2012 – same) actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments as at the year end of £111,846,000 (2012 – £82,318,000) have therefore been deemed as Level 1.

19. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The capital of the Company consists of equity, comprising issued capital, reserves and retained earnings.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company is not subject to any externally imposed capital requirements.

Information about the Manager

Dunedin Smaller Companies Investment Trust PLC

The Company's Manager is Aberdeen Asset Managers Limited ("AAM"), a wholly-owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 October 2013 managed a combined £206.9 billion of funds for UK institutions, investment trusts, closed end funds, unit trusts, private clients and offshore funds. It has its headquarters in Aberdeen with principal investment offices in Edinburgh, Hong Kong, London, Philadelphia, Singapore and Sydney.

The Group manages over 34 investment trusts and other closed-end funds representing £10.8 billion under management.

Senior Investment Manager

Ed Beal

Ed is an investment manager on the Pan European equities team. Ed manages the Company. Ed joined Edinburgh Fund Managers plc (which was subsequently taken over by Aberdeen Asset Management PLC) in 2000 from the University of Dundee's Student Association where he was president leading development and strategy.

Ed graduated with a BSc (Hons) in Biochemistry from the University of Dundee and is a CFA Charterholder.

The Investment Process

Philosophy and Style

The Manager's investment philosophy is that markets are not always efficient. We (AAM) believe that superior investment returns are therefore attainable by identifying good companies cheaply, defined in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment including company visits in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we then keep in close touch with the company, aiming to meet management at least twice a year. Given our long-term fundamental investment philosophy, one would not expect much change in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up or top slice positions, which accounts for the bulk of the activity within the portfolio during the year under review.

Risk Controls

We seek to minimise risk by our in depth research. We do not view divergence from a benchmark as risk – we view investment in poorly run expensive companies that we do not understand as risk. In fact where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification of stocks provides our main control.

AAM's performance and investment risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Manager primarily to check the portfolio is behaving as expected, not as a predictive tool

Marketing Strategy

Dunedin Smaller Companies Investment Trust PLC contributes to the marketing programme run by Aberdeen Asset Managers Limited ("AAM") on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by AAM. This contribution is reviewed annually.

The purpose of the programme is to communicate effectively with existing shareholders and attract new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. AAM's experience has also shown that well-targeted marketing of the Company's investment merits through packaged products, whether singly, or in conjunction with other trusts run by AAM, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

Investor Relations Programme

AAM runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

Group Schemes

The Aberdeen Group administers several savings schemes including the Share Plan, ISA and the Children's Plan. These schemes allow investment at lower costs and have proved popular with private investors.

Direct Response Advertising

AAM advertise the packaged product availability of the Company in the specialist financial press.

Direct Mail

Periodic mail shots of information packs inviting named addressees to respond is a low-cost method of building awareness and investor databases. Target groups include existing holders of other AAM investment trusts as well as known buyers of investment trusts.

Newsletter

'The Bulletin' newsletter, an informed commentary on markets and investment trusts managed by AAM, is distributed free of charge.

Public Relations

AAM undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

Shareholder Services

AAM runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately. The marketing programme is under the direction of AAM's Group Head of Brand, who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

Internet

The Company has its own dedicated website at: **www.dunedinsmaller.co.uk.** This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports.

The Company is committed to the close monitoring of the Marketing Programme. The Head of Investor Relations for Investment Trusts reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone AAM's Investor Services Department on 0500 00 00 40. Alternatively, internet users may e-mail us at **inv.trusts@aberdeen-asset.com** or write to us at Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex, CM99 2DB.

How to Invest in Dunedin Smaller Companies Investment Trust PLC

Direct

Investors can buy and sell shares in Dunedin Smaller Companies Investment Trust PLC directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through Aberdeen's Investment Plan for Children, Investment Trust Share Plan and Investment Trust ISA.

Suitable for Retail

The Company's shares are intended for investors primarily in the UK (including retail investors), professional-advised private clients and institutional investors who are wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that the shares issued by Dunedin Smaller Companies Investment Trust PLC can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

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

Aberdeen's Investment Plan for Children

Aberdeen Asset Managers ("AAM") runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Dunedin Smaller Companies Investment Trust PLC. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

Aberdeen Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in Dunedin Smaller Companies Investment Trust PLC can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Stocks and Shares ISA

An investment of up to £11,520 can be made in the tax year 2013/2014 and £11,880 in the tax year 2014/15.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in Dunedin Smaller Companies Investment Trust PLC while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per investment trust of £250.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs may be changed by future legislation.

Trust Information

If investors would like details of Dunedin Smaller Companies Investment Trust PLC or information on the Children's Plan, Share Plan, ISA or ISA transfers please telephone 0500 00 00 40, e-mail to inv.trusts@aberdeen-asset.com or write to:

Aberdeen Investment Trust Administration
PO Box 11020
Chelmsford
Essex, CM99 2DB

Details are also available on www.invtrusts.co.uk

Keeping You Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times, and other national newspapers.

For internet users, detailed data on Dunedin Smaller Companies Investment Trust PLC including share price, performance information and a monthly fact sheet is available from the Company's website (www.dunedinsmaller.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively please call 0500 00 00 40 for trust information.

For further information concerning any direct shareholding, please contact the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline numbers:
Tel. 0871 384 2445
Fax 0871 384 2100
Shareview enquiry line: 0871 384 2233
Textel/hard of hearing line: 0871 384 2255

(Calls to the above Equiniti numbers will be charged at 8 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday excluding bank holidays).

Overseas helpline number: +44 121 415 7047

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:

Telephone: 0500 00 40 00
Email: aam@lit-request.com

For information on the Investment Plan for Children, Share Plan, ISA or ISA transfer please contact:

Aberdeen Investment Trust Administration
PO Box 11020
Chelmsford
Essex, CM99 2DB

For information on the Pension Plan, please contact

Capita SIP Services
141 Castle Street
Salisbury
Wiltshire SP1 3TB
Telephone: 0800 13 70 79

Investor Warning

Aberdeen is aware that some investors have received telephone calls from people purporting to work for Aberdeen, or third parties, who have offered to buy their investment trust shares. These may be scams which attempt to gain personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from an investor is required to release the supposed payment for their shares.

These callers do not work for Aberdeen and any third party making such offers has no link with Aberdeen. Aberdeen never makes these types of offers and does not 'cold-call' investors in this way. If investors have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact Aberdeen's investor services centre using the details provided.

The above information on pages 48 to 49 have been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority.

Glossary of Terms and Definitions

Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Net Gearing/(Cash)	Net gearing/(cash) is calculated by dividing total assets (as defined below) less cash or cash equivalents by shareholders' funds expressed as a percentage.
Ongoing Charges	Ratio of expenses as a percentage of average daily shareholders' funds calculated as per the industry standard method.
Net Asset Value ("NAV")	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Premium	The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.
Price/Earnings Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, long and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Total Assets	Total Assets less current liabilities (before deducting prior charges as defined above).
Total Return	Total Return assumes reinvestment of the net dividend when the Company's shares go ex-dividend. The NAV Total Return assumes investing the net dividend on the date to which that dividend was earned, ie half-yearly.
RDR	RDR is the FCA 'Retail Distribution Review'. This re-positioned the UK retail market from 31.12.2012 to (i) introduce Adviser Charging of investors in place of initial/trail commission in respect of product purchases paid by product providers to intermediaries and (ii) introduce more stringent professional qualifications for retail intermediaries.

Notice of Annual General Meeting

Notice is hereby given that the eighty-sixth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at the offices of Aberdeen Asset Managers Ltd, 40 Princes Street, Edinburgh, EH2 2BY, on Thursday 6 February 2014 at 12.00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 12 inclusive will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions:

1. To receive the Reports of the Directors and auditor and the financial statements for the year ended 31 October 2013.
2. To receive and adopt the Directors' Remuneration Report (other than the Directors' Remuneration Policy).
3. To receive and adopt the Directors' Remuneration Policy.
4. To approve a final dividend of 3.10p on the Ordinary shares.
5. To re-elect The Earl of Dalhousie as a Director of the Company.
6. To re-elect Mr James Barnes as a Director of the Company.
7. To re-elect Mr Norman Yarrow as a Director of the Company.
8. That KPMG LLP be and are hereby appointed auditor of the Company and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.
9. To authorise the Directors to fix the remuneration of the auditor for the year to 31 October 2014.
10. That Article 79 of the Articles of Association of the Company, concerning the aggregate fees payable to Directors, be amended by substituting "£150,000" for "£100,000".
11. That, with effect from the time of the passing of this resolution the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot in accordance with Section 551 of the Companies Act 2006 shares in the Company and to grant rights ("relevant rights") to subscribe for, or to convert any security into shares in the Company up to an aggregate nominal amount of £789,645 representing approximately 33% of the issued share capital as at the date of the passing of this resolution, such authorisation to expire at the conclusion of the Annual General Meeting of the Company in 2015, unless previously renewed, revoked or varied by the Company in general meeting, but so that this authority shall allow the Company and its Directors to make offers or agreements before such expiry which would or might require such securities to be allotted or relevant rights to be granted after such expiry and the Directors may allot shares or grant relevant rights in pursuance of any such offers or agreements as if such expiry had not occurred.
12. That, subject to and conditional upon the passing of resolution 13 set out below, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with LR 15.4.11 of the Listing Rules of the UK Listing Authority to sell or transfer out of treasury Ordinary shares of 5p each in the capital of the Company (the "share(s)") for cash at a price which represents a discount to the net asset value attributable to the ordinary shares at the date of such issue, provided always that:
    (i) such sale or transfer will be limited to a sale or transfer at a price in excess of the average price at which the shares were bought into treasury;
    (ii) where any shares are sold or transferred out of treasury pursuant to this authority at a discount to the then prevailing net asset value of the shares, such discount must be lower than the average discount to the net asset value per share at which the Company acquired the relevant shares;
    (iii) the aggregate net asset value dilution associated with all sales of treasury shares in any one financial year does not exceed 0.5% of net assets;
    (iv) this power shall be limited to the sale of shares having an aggregate nominal value of £119,643, being approximately 5% of the nominal value of the issued share capital of the Company, as at the date of the passing of this resolution and provided further that the number of shares to which this power applies shall be reduced from time to time by the number of shares which are allotted for cash as if section 561(1) of the Companies Act 2006 did not apply pursuant to the power conferred on the Directors by resolution 13 set out below; and
    (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2015, (unless such authority is renewed, varied or revoked by the Company in general meeting prior to such time) save that the Company may, prior to such expiry, make an offer or agreement which would or might otherwise require treasury shares to be sold or transferred after such expiry and the Directors may sell or transfer treasury shares pursuant to such offer or agreement as if the authority conferred hereby had not expired.
13. That, subject to the passing of resolution number 11 set out above, the Directors be and are hereby empowered, pursuant to Sections 570 and 573 of the Companies Act 2006 ("the Act"), to allot equity securities (as defined in Section 560 of the

Act) for cash pursuant to the authority conferred by resolution number 11 above or by way of a sale of treasury shares, in each case as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

(i) (otherwise than pursuant to sub-paragraph (ii) below) which are, or are to be wholly paid up in cash, at the price of not less than the net asset value per share at allotment, as determined by the Directors, up to an aggregate nominal value of £119,643; and

(ii) in connection with an offer by way of rights issue in favour of all holders of Ordinary shares where the equity securities respectively attributable to the interests of all such holders are either proportionate (as nearly as may be) to the respective number of Ordinary shares held by them on the record date of such allotment or to holders of other equity securities as required by the rights of these securities (but subject in either case to such exclusions, limitations, restrictions or other arrangements as the Directors consider necessary, expedient, or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in or under the laws of, or requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever) at a price of not less than the net asset value per share at allotment, as determined by the Directors;

and shall expire at the conclusion of the Annual General Meeting of the Company in 2015, but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.

14. That, in substitution for any existing authority under Section 701 of the Companies Act 2006 (the "Act"), the Company be and it is hereby generally and unconditionally authorised, in accordance with Section 701 of the Act, to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") provided that:
    (i) the maximum aggregate number of Ordinary shares hereby authorised to be purchased shall be 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for an Ordinary share shall be 5p (exclusive of expenses);
    (iii) the maximum price (exclusive of expenses) which may be paid for an Ordinary share shall be the higher of:
        a) 5% above the average of the market values of the Ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the Ordinary shares for the five business days immediately preceding the date of purchase; and
        b) the higher of the price of the last independent trade in Ordinary shares and the highest current independent bid for Ordinary shares on the London Stock Exchange; and
    (iv) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2015 save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase Ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract or contracts.

Registered office:	By order of the Board
40 Princes Street	**Aberdeen Asset Management PLC**
Edinburgh	Secretary
EH2 2BY	27 December 2013

Notes:

(i) A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.

(ii) A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Equiniti Limited, Freepost 10847, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZN so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.

(iii) The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

(vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(viii) The right to vote at a meeting is determined by reference to the Company's register of members as at 6.00 p.m. on 4 February 2014 or if this meeting is adjourned, 6.00 p.m. on the day two days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.

(ix) As at 13 December 2013 (being the latest business day prior to the publication of this notice) the Company's issued share capital comprised 47,857,317 Ordinary shares of 5p each. Each Ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 13 December 2013 was 47,857,317.

(x) A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes (i) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.

(xi) Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.

(xii) It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

(xiii) No Director has a service contract with the Company. Copies of the Directors' letters of appointment are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the Company's registered office and for 15 minutes prior to, and at, the meeting.

(xiv) Information regarding the Annual General Meeting is available from the Company's website, www.dunedinsmaller.co.uk

(xv) As a member, shareholders have the right to put questions at the meeting relating to business being dealt with at the meeting.

(xvi) Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

Corporate Information

Directors
The Earl of Dalhousie, Chairman
T J K Barnes
R M Entwistle
N M Yarrow

Manager and Registered Office
Aberdeen Asset Managers Limited
40 Princes Street
Edinburgh
EH2 2BY
Telephone: 0131 528 4000

Company Secretary
Aberdeen Asset Management PLC,
40 Princes Street,
Edinburgh
EH2 2BY
Email: company.secretary@invtrusts.co.uk

Company Registration Number: SC014692

Customer Services
Freephone: 0500 00 00 40
(open Monday - Friday 9 a.m. – 5 p.m.)

Email: inv.trusts@aberdeen-asset.com

Stockbrokers
Cantor Fitzgerald
One Churchill Place
Level 20
Canary Wharf
E14 5RB

Registrar
Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0871 384 2445

(Calls to the above Equiniti number will be charged at 8p per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday excluding bank holidays).

Overseas helpline number: +44 121 415 7047

Auditor
KPMG Audit Plc*
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Websites
www.dunedinsmaller.co.uk
www.aberdeen-asset.com

AIC
The Company is a member of the Association of Investment Companies.

*KPMG LLP effective from 6 February 2014 (subject to shareholder approval)

Financial Calendar

16 December 2013	Announcement of results for year ended 31 October 2013
6 February 2014	Annual General Meeting in Edinburgh (12 noon)
11 February 2014	Final dividend payable for year ended 31 October 2013
June 2014	Announcement of Half-Yearly Financial Report for six months ending 30 April 2014
July 2014	Interim dividend payable for year ending 31 October 2014

Your Company's History

The Company was incorporated on 19 July 1927.

Issued Share Capital at 31 October 2013

47,857,317	Ordinary 5p shares

Capital History

7 May 1997	£15,000,000 raised via a 25 year 8.375% Debenture issue
6 July 2000	100,000 Ordinary shares purchased for cancellation
15 March 2002	150,000 Ordinary shares purchased for cancellation
3 August 2004	276,281 Ordinary shares purchased for cancellation
29 November 2006	Pursuant to a Tender Offer for up to 30% of the Ordinary shares in issue, 4,882,087 Ordinary shares were purchased by tender and cancelled at 740.49p per share
30 November 2006	Sub-division of Ordinary shares of 25p each into five Ordinary shares of 5p each
30 November 2006	Bonus Issue of 8,543,496 Subscription shares
1 December 2006	£15,000,000 8.375% Debenture Stock 2022 repaid at a price of £143.09 per £100 nominal of Debenture Stock
28 February 2007	11,717 Subscription shares converted into 5p Ordinary shares
Year ended 31 October 2007	7,642,556 Ordinary shares purchased for cancellation
28 February 2008	2,752 Subscription shares converted into 5p Ordinary shares
Year ended 31 October 2008	1,407,500 Ordinary shares purchased for cancellation
Year ended 31 October 2009	70,000 Ordinary shares purchased for cancellation
28 February 2010	1,779 Subscription shares converted into 5p Ordinary shares
28 February 2011	1,091 Subscription shares converted into 5p Ordinary shares
28 February 2012	1,874 Subscription shares converted into 5p Ordinary shares
14 March 2012	Each outstanding Subscription Share was converted automatically into one deferred share which were immediately redeemed and treated as cancelled