Dunedin Smaller Companies Investment Trust PLC

An investment trust investing in a portfolio of smaller, carefully screened, quoted companies in the UK

Annual Report
31 October 2016

Broughty Castle, Dundee

Contents

Visit our website

To find our more about Dunedin Smaller Companies Investment Trust PLC, please visit **dunedinsmaller.co.uk**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

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.

Financial Highlights

Launched in July 1927, Dunedin Smaller Companies Investment Trust PLC (the "Company") is an investment company with its Ordinary shares listed on the premium segment of the London Stock Exchange. The Company is an investment trust and aims to attract long term private and institutional investors wanting to benefit from the growth prospects of UK smaller companies by investing in a relatively risk averse investment trust.

The Company is governed by a board of directors, all of whom are independent, and has no employees. Like most other investment companies, it outsources its investment management and administration to an investment management group, the Aberdeen Group, and other third party providers. The Company does not have a fixed life.

Net asset value total return

+7.0%

2015 +10.7%

Share price total return

+4.1%

2015 +13.7%

FTSE SmallCap Index (ex Investment Companies) total return

+6.7%

2015 +13.1%

Revenue return per share

5.98p

2015 6.17p

Dividends per share[A]

6.15p

2015 6.00p

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

Total assets[B] **(million)**

£122.6

2015 £117.8

[B] As defined on page 64.

Net asset value per share

At 31 October – pence

Mid-market price per share

At 31 October - pence

Dividends per share

Year ended 31 October – pence

Investment Objective

The Company's investment objective is to achieve long term growth from a portfolio of smaller companies in the United Kingdom.

Investment Policy

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 Investment Manager considers this to be appropriate.

The Directors measure the performance of the portfolio relative to the FTSE SmallCap Index (excluding Investment Companies) but the Company is unconstrained as to the market sectors in which it may invest. As a result the portfolio is likely to diverge, sometimes significantly, from the benchmark.

Risk Diversification

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

Gearing

The Directors are responsible for determining the gearing strategy of the Company. Gearing is used with the intention of enhancing long-term returns and is subject to a maximum level of 20% of gross assets at the time the gearing is incurred. Any borrowing, except for short-term liquidity purposes, is used for investment purposes.

Benchmark

The Company's benchmark index is the FTSE SmallCap Index (excluding Investment Companies).

Management

The investment management of the Company has been delegated by Aberdeen Fund Managers Limited ("AFML", the "AIFM" or the "Manager") to Aberdeen Asset Managers Limited ("AAML" or the "Investment Manager"). Both companies are wholly owned subsidiaries of Aberdeen Asset Management PLC (the "Aberdeen Group").

Financial Calendar

1 February 2017	Annual General Meeting in Dundee (12 noon)
10 February 2017	Final dividend payable for year ended 31 October 2016
June 2017	Announcement of Half-Yearly Financial Report for six months ending 30 April 2017
July 2017	Interim dividend payable for year ending 31 October 2017
December 2017	Announcement of Annual Financial Report for the year ending 31 October 2017

Chairman's Statement

N M Yarrow
Chairman

Performance

The Company's net asset value ("NAV") total return for the year ended 31 October 2016 was 7.0%, comparing favourably with a total return of 6.7% from our benchmark, the FTSE SmallCap Index (ex Investment Companies). The share price total return for the year was 4.1%, reflecting a slight widening of the discount of the share price to the NAV per share to 17.8%, from 15.0% at the beginning of the year.

Although markets increased during the year as a whole, it was a period of significant uncertainty and volatility. Equities were particularly volatile at the beginning of 2016 with concerns of slowing economic growth in China and weakening commodity prices, in particular oil, driving investor sentiment. As the year progressed, investors also became concerned about the UK's referendum on its membership of the EU. The surprise result to exit the EU had a significant impact on markets, and also on Sterling which depreciated significantly against other major currencies. However, the stockmarket recovered quickly and ended the year higher than before the referendum, due principally to the non-Sterling exposure of the earnings of many of the larger UK listed companies, as well as the additional stimulus measures announced by the Bank of England. In the year as a whole, and in the period following the referendum, smaller companies underperformed against their larger counterparts, however they still ended the period in positive territory.

The companies in the portfolio have wide and varied geographic exposures and consequently the impact of the referendum at the level of the individual holdings was limited. The positive performance for the year arose from a range of businesses with exposure to diverse end-markets. These included RPC Group, which continued its successful consolidation of the European plastics packaging market. Dechra Pharmaceuticals witnessed very good growth in its US operations whilst also benefitting from efforts to broaden its operations to serve the food producing animal market. Two recent introductions to the portfolio; Smart Metering Systems and Burford Capital also delivered strong performance. In each case a combination of the delivery of better than expected results has combined with an increasing appreciation of their business models by investors to deliver substantial share price gains. James Fisher, the marine services company, more than offset weakness in its oil and gas exposed businesses with pleasing contract wins in its nuclear, offshore wind and submarine rescue operations. BBA Aviation and Abcam, a provider of high end research laboratory consumables, are two other businesses that delivered substantial gains during the year as they continued to successfully execute their strategies. In addition, BBA's share price has been a beneficiary of the weakness of Sterling given the vast majority of its revenues are in US Dollars.

Of course in any portfolio not everything will be performing as hoped simultaneously. Mothercare has been unfortunate to experience a downturn in trading in its international division at a time when the already troubled UK business has shown signs of improvement. Interserve, the construction and facilities management company, has also struggled, with three loss making construction contracts in the UK. Despite resilient trading throughout the rest of Interserve's business, the uncertainties caused by these have weighed on the share price.

More detailed information on performance for the year, including details on changes within the portfolio, is included within the Investment Manager's Review.

Dividends

The Company experienced a small decline in earnings per share for the year, to 5.98p, compared to 6.17p for the previous year. The main reason for the decrease was a fall in the amount of special dividends received during the year. This masked the beneficial impact of continuing levels of dividend growth within the portfolio.

An interim dividend of 2.15p per share was paid on 29 July 2016. The Board proposes a final dividend of 4.00p per share (2015 - 3.85p) which, subject to approval at the Annual General Meeting, will be paid on 10 February 2017 to shareholders on the register on 13 January 2017. When combined with the interim dividend, the total dividend for the year will amount to 6.15p (2015 – 6.0p), an increase of 2.5%, and equivalent to a yield of 3.0% based on the year end share price of 202p.

As stated in last year's Annual Report, whilst the Company's objective is to achieve long term growth, the Board recognises the importance of income to shareholders and, in order to grow or maintain the dividend in future years, the Board intends, if necessary, to use the Company's substantial revenue and capital reserves to support any portion of the dividend not covered by the year's earnings. Following the payment of the final dividend, revenue reserves per share will amount to 6.08p (2015 – 6.25p), representing 98.9% of the current annual dividend cost.

Share Buy Backs

The Company did not purchase any of its own Ordinary shares during the period under review. As stated above, the discount widened to 17.8% during the year, which was in line with a widening of discounts within the Company's peer group and also within the investment trust sector as a whole. The Directors monitor the Company's discount on an ongoing basis and may use its share buyback powers, subject to market conditions, if it feels this to be appropriate. A resolution to renew the Company's share buy-back authority will be put to shareholders at the Annual General Meeting.

Gearing

The Company remained ungeared throughout the year on net of cash basis. It has a £5 million revolving credit facility as well as a three year term loan facility of £5 million which is more than offset by cash balances held. The £5 million term loan has a fixed rate of interest of 2.171% and both facilities mature in November 2017.

Management Fee Arrangements

The basic management fee payable to the Manager, details of which are shown in note 3 to the financial statements, is 0.4% per annum of the Company's adjusted gross assets.

There is also a performance-related fee which, for a number of years, has been calculated on a quarterly basis 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 NAV performance outperforms the capital performance of the benchmark index over the previous rolling 12 month period. However, a consequence of this arrangement is that it would be possible for a performance fee to be paid during a year when the Company underperformed its benchmark.

During the year, the Board therefore agreed with the Manager that, with effect from 1 November 2016, the performance-related fee will be calculated on an annual basis in respect of the performance of the Company for the preceding financial year, rather than on a quarterly basis. There are no changes to the rate of performance fee, including the maximum rate per annum, and all other terms of the management agreement are unchanged.

Annual General Meeting

The Annual General Meeting will be held at Discovery Point, Dundee on Wednesday 1 February 2017 at 12 noon. In addition to the formal business of the meeting, our portfolio manager, Ed Beal, will provide a presentation on performance for the year and 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 meeting. An invitation to the meeting is included with the Annual Report and shareholders are requested to complete and return this to the Company Secretary.

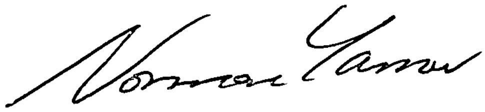
The Notice of the Annual General Meeting is contained on pages 67 to 70.

Outlook

Although global growth is expected to improve next year, the risks caused by the UK referendum result and the forthcoming change in the US Administration are likely to cause continuing uncertainties, not only for investors but also for company managements and consumers. This is likely to lead to a slowdown in economic activity in the UK.

The Investment Manager has continued to focus on investing in good quality companies run by strong management teams. The Board believes that, notwithstanding the shorter term uncertainties, this approach will be beneficial over the long term and that smaller companies will continue to provide good long term opportunities for shareholders.

N M Yarrow
Chairman
15 December 2016



Strategic Report

The Company is an investment trust with a premium listing on the London Stock Exchange. Its objective is to achieve long term growth from a portfolio of smaller companies in the United Kingdom.

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 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).

1927

Dunedin Smaller Companies Investment Trust PLC was launched 89 years ago in July 1927; investment trusts are the oldest form of collective investment in the world.

Edinburgh city view as seen from The Nelson Monument

Overview of Strategy

Business Model

The business of the Company is that of an investment company which seeks to qualify as an investment trust for UK capital gains tax purposes. The Directors do not envisage any change in this activity in the foreseeable future.

Investment Objective

The Company's investment objective is to achieve long term growth from a portfolio of smaller companies in the United Kingdom.

Investment Policy

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 Investment Manager considers this to be appropriate.

The Directors measure the performance of the portfolio relative to the FTSE SmallCap Index (ex Investment Companies) but the Company is unconstrained as to the market sectors in which it may invest. As a result the portfolio is likely to diverge, sometimes significantly, from the benchmark.

Risk Diversification

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Gearing

The Directors are responsible for determining the gearing strategy of the Company. Gearing is used with the intention of enhancing long-term returns and is subject to a maximum level of 20% of gross assets at the time the gearing is incurred. Any borrowing, except for short-term liquidity purposes, is used for investment purposes.

Delivering the Investment Policy

The Directors are responsible for determining the investment objective and the investment policy of the Company. Day-to-day management of the Company's assets has been delegated, via the AIFM, to the Investment Manager.

Investment Process

The Investment Manager believes that, over the long term, share prices reflect underlying business fundamentals. A bottom-up investment process is followed, which is based on a disciplined evaluation of companies that includes visits by its fund managers. Company selection is the major source of added value. New investments are not made without the fund managers 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 Investment Manager's portfolio construction relies upon diversification rather than formal controls guiding stock and sector weightings. The Investment 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.

A detailed description of the investment process and the risk controls employed by the Investment Manager is disclosed on page 60. A comprehensive analysis of the Company's portfolio is disclosed on pages 21 to 23 including a description of the ten largest investments, the portfolio investments by value and sector analysis. At the year end the Company's portfolio consisted of 43 holdings.

Benchmark

The Company's benchmark is the FTSE SmallCap Index (excluding Investment Companies).

Key Performance Indicators ("KPIs")

The Board uses a number of financial performance measures to assess the Company's success in achieving its objective and determining the progress of the Company in pursuing its investment policy. The main KPIs identified by the Board in relation to the Company, which are considered at each Board meeting, are shown in the following table:

Overview of Strategy continued

KPI	Description
Performance of net asset value ("NAV")	The Board considers the Company's NAV total return to be the best indicator of performance over time and is therefore the main indicator of performance used by the Directors. The figures for each of the past 10 years are set out on page 14.
Performance against benchmark index and competitor investment trusts	The Board measures performance against the benchmark index – the FTSE SmallCap Index (excluding Investment Companies). The figures for this year and for the past three and five years are set out on page 13 and a graph showing performance against the benchmark index over the past five years is shown on page 14. The Board also monitors performance relative to competitor investment trusts over a range of time periods, taking into consideration the differing investment policies and objectives employed by those companies.
Revenue return per Ordinary share	The Board also monitors the Company's net revenue return. The revenue returns per Ordinary share for each of the past 10 years are set out on page 14.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. The returns for this year and for the past three and five years are set out on page 13 and a graph showing the share price total return performance against the benchmark index over the past five years is shown on page 14.
Discount/premium to NAV	The discount/premium relative to the NAV per share represented by the share price is closely monitored by the Board. A graph showing the discount/premium for the past five years is shown on page 14.
Ongoing charges	The Board monitors the Company's operating costs carefully. Ongoing charges for the year and the previous year are disclosed on page 12.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The risks and uncertainties faced by the Company are reviewed by the Audit Committee in the form of a risk matrix and heat map, and the principal risks and uncertainties facing the Company at the current time, together with a description of the mitigating actions the Board has taken, are set out in the table below. The Board has carried out a robust assessment of these risks, which include those that would threaten its business model, future performance, solvency or liquidity. The principal risks associated with an investment in the Company's shares are published monthly on the Company's factsheet and they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are on the Company's website.

Description	Mitigating Action
Investment strategy and objectives – the setting of an unattractive strategic proposition to the market and the failure to adapt to changes in investor demand may lead to the Company becoming unattractive to investors, a decreased demand for its shares and a widening discount.	The Board keeps the level of discount at which the Company's shares trade, as well as the investment objective and policy, under review and holds an annual strategy meeting where it reviews investor relations reports and updates from the Investment Manager and the Company's broker. The Directors are updated at each Board meeting on the composition of, and any movements in, the shareholder register.

Investment management – investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and an inability to meet the Company's objectives, as well as a widening discount.	The Board meets the Manager on a regular basis and keeps investment performance under close review. Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Aberdeen Group is carried out annually by the Management Engagement Committee. The Board sets and monitors the investment restrictions and guidelines, and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process and application of the guidelines. The Board also monitors the Company's share price relative to the NAV per share.
Income/dividends – the level of the Company's dividends and future dividend growth will depend on the performance of the underlying portfolio. Any change in the tax treatment of dividends or interest received by the Company may reduce the level of net income available for the payment of dividends to shareholders.	The Directors review detailed income forecasts at each Board meeting. The Company has built up significant revenue reserves which can be drawn upon if required should there be a shortfall in revenue returns.
Financial obligations – the financial risks associated with the portfolio could result in losses to the Company.	The financial risks associated with the Company include market risk, liquidity risk and credit risk, all of which are mitigated by the Investment Manager. Further details of the steps taken to mitigate the financial risks associated with the portfolio are set out in note 15 to the financial statements.
Gearing – a fall in the value of the Company's investment portfolio could be exacerbated by the impact of gearing. It could also results in a breach of loan covenants.	The Board sets the gearing limits within which the Investment Manager can operate. Gearing levels and compliance with loan covenants are monitored on an ongoing basis by the Manager and at Board meetings. In the event of a possible impending covenant breach, appropriate action would be taken to reduce borrowing levels. In addition, AFML, as alternative investment fund manager, has set overall leverage limits as set out on page 66.
Regulatory – failure to comply with relevant laws and regulations could result in fines, loss of reputation and potentially loss of an advantageous tax regime.	The Board and Manager monitor changes in government policy and legislation which may have an impact on the Company, and the Audit Committee monitors compliance with regulations by reviewing internal controls reports from the Manager. From time to time the Board employs external advisers to advise on specific matters.
Operational – the Company is dependent on third parties for the provision of all systems and services (in particular, those of the Aberdeen Group) and any control failures and gaps in their systems and services could result in a loss or damage to the Company.	Written agreements are in place with all third party service providers. The Board receives reports from the Manager on its internal controls and risk management throughout the year and receives assurances from all its other significant service providers on at least an annual basis. The Manager monitors closely the control environments, including controls relating to cyber security, and quality of services provided by third parties, which include the depositary and custodian, through service level agreements, regular meetings and key performance indicators. Further details of the internal controls which are in place are set out in the Audit Committee's Report on pages 36 and 37.

Overview of Strategy continued

Promoting the Company

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the value and rating of the Company's shares. The Board believes an effective way to achieve this is through subscription to and participation in the promotional programme run by the Aberdeen Group on behalf of a number of investment trusts under its management. The Company's financial contribution to the programme is matched by the Aberdeen Group. The Aberdeen Group Head of Brand reports quarterly to the Board giving analysis of the promotional activities as well as updates on the shareholder register and any changes in the make up of that register.

The purpose of the programme is both to communicate effectively with existing shareholders and to gain new shareholders with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key and therefore the Company also supports the Aberdeen Group's investor relations programme which involves regional roadshows, promotional and public relations campaigns.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with relevant knowledge in order to allow it to fulfill its obligations. The Board also recognises the benefits, and is supportive, of the principle of diversity in its recruitment of new Board members. However, in making new appointments, the Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board has not therefore set any measurable objectives in relation to its diversity.

At 31 October 2016, there were three male Directors and one female Director on the Board.

Employee, Social and Human Rights Issues

The Company has no employees as the Board has delegated day-to-day management and administrative functions to the Manager. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is set out below.

Socially Responsible Investment Policy

The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of corporate governance and socially responsible investing. 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 both areas.

The Manager's ultimate objective, however, is to deliver superior investment returns for its clients. Accordingly, whilst the Manager will seek to favour companies which pursue best practice in these areas, this must not be to the detriment of the return on the investment portfolio.

UK Stewardship Code and Proxy Voting as an Institutional Shareholder

Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

The full text of the Company's response to the Stewardship Code may be found on its website.

Modern Slavery Act

Due to the nature of the Company's business, being a company that does not offer goods and services to customers, the Board considers that it is not within the scope of the Modern Slavery Act 2015 because it has no turnover. The Company is therefore not required to make a slavery and human trafficking statement. In any event, the Board considers the Company's supply chains, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

Global Greenhouse Gas Emissions

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

Viability Statement

The Board considers the Company, with no fixed life, to be a long term investment vehicle but, for the purposes of this viability statement, has decided that three years is an appropriate period over which to report. The Board considers that this period reflects a balance between looking out over a long term horizon and the inherent uncertainties of looking out further than three years.

In assessing the viability of the Company over the review period, the Directors have focused upon the following factors:

- The principal risks and uncertainties set out on pages 8 and 9 and the steps taken to mitigate these risks.

- The ongoing relevance of the Company's investment objective.
- The Company's portfolio is invested in listed securities.
- The level of gearing is closely monitored and the financial covenants attached to the Company's borrowings provide for significant headroom.
- The ability of the Company to refinance or repay its £10 million loan facility on or before its maturity in November 2017.

In making its assessment, the Board has considered that there are other matters that could have an impact on the Company's prospects or viability in the future, including a large economic shock, significant stock market volatility, a substantial reduction in the liquidity of the portfolio, and changes in regulation or investor sentiment.

Taking into account the Company's current position and the potential impact of its principal risks and uncertainties, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of approval of this Report.

Future

Many of the non-performance related trends likely to affect the Company in the future are common across all closed ended investment companies, such as the attractiveness of investment companies as investment vehicles, the impact of regulatory changes (including MiFID II and the Packaged Retail Investment and Insurance Products regulations) and the recent changes to the pensions and savings market in the UK. In addition, the Board considers that there are additional uncertainties caused by the recent referendum in the UK on its membership of the European Union, and the US presidential election. These factors need to be viewed alongside the outlook for the Company, both generally and specifically, in relation to the portfolio. The Board's view on the general outlook for the Company can be found in the Chairman's Statement on page 5 whilst the Investment Manager's views on the outlook for the portfolio are included on page 19.

On behalf of the Board
N M Yarrow
Chairman
15 December 2016

Results

Financial Highlights

	31 October 2016	31 October 2015	% change
Total assets less current liabilities (before deducting bank loan)	£122,618,000	£117,823,000	4.1
Equity shareholders' funds (Net Assets)	£117,618,000	£112,823,000	4.3
Market capitalisation	£96,672,000	£95,894,000	0.8
Share price (mid market)	202.00p	200.38p	0.8
Net Asset Value per share	245.77p	235.75p	4.3
FTSE SmallCap Index (ex Investment Companies) (capital gains basis)	4,325.05	4,174.82	3.6
Discount (difference between share price and net asset value)	17.81%	15.00%	
Gearing			
Net cash[A]	2.65%	0.47%	
Dividends and earnings			
Total return per share[B]	16.02p	23.19p	
Revenue return per share	5.98p	6.17p	(3.1)
Dividends per share[C]	6.15p	6.00p	2.5
Dividend cover (including proposed final dividend)	0.97	1.03	
Revenue reserves[D]	£4,823,000	£4,832,000	
Operating costs			
Ongoing charges (excluding performance fees)[E]	0.81%	0.81%	
Ongoing charges (including performance fees)	0.83%	1.03%	

[A] Calculated in accordance with AIC guidance "Gearing Disclosures post RDR" (see definition of Gearing on page 64).
[B] Measures the total revenue and capital return for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[C] The figures for dividends per share reflect the years in which they were earned (see note 7 on page 50).
[D] The revenue reserve figure does not take account of the proposed final dividend amounting to £1,914,000 (2015 – £1,843,000).
[E] The ongoing charges ratio has 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	+0.8	–6.5	+56.0
Net Asset Value per share	+4.3	+8.8	+71.8
FTSE SmallCap Index (ex Investment Companies)	+3.6	+11.4	+90.3
Total return (Capital return plus dividends paid)			
Share price	+4.1	+1.5	+81.1
Net Asset Value per share	+7.0	+16.8	+96.2
FTSE SmallCap Index (ex Investment Companies)	+6.7	+20.6	+118.0

Dividends

	Rate per share	xd date	Record date	Payment date
Proposed final dividend 2016	4.00p	12 January 2017	13 January 2017	10 February 2017
Interim dividend 2016	2.15p	7 July 2016	8 July 2016	29 July 2016
2016	**6.15p**			
Final dividend 2015	3.85p	14 January 2016	15 January 2016	12 February 2016
Interim dividend 2015	2.15p	2 July 2015	3 July 2015	24 July 2015
2015	**6.00p**			

Performance

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

Five years to 31 October 2016 (rebased to 100 at 31/10/11)

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

Five years to 31 October 2016

Ten Year Financial Record

Year to 31 October	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue available for Ordinary dividends (£'000)	2,432	2,517	1,525	1,939	2,556[A]	2,206	2,599	2,555	2,954	2,862
Per share (p)										
Net revenue return	4.5	5.2	3.2	4.1	5.3	4.6	5.4	5.3	6.2	6.0
Net dividends paid/proposed	4.25	4.50	4.50	4.60	4.85	5.00	5.15	5.25	6.00	6.15
Revenue reserve after payment of final dividend	6.44	7.43	6.15	5.60	6.09	5.70	5.98	6.07	6.25	6.08
Net asset value	167.0	90.1	117.1	154.2	143.0	168.2	226.0	217.9	235.8	245.8
Total return	4.4	(73.6)	31.4	41.7	(6.5)	30.1	62.8	(2.9)	23.2	16.0
Shareholders' funds (£'000)	82,364	43,170	56,020	73,809	68,446	80,499	108,153	104,258	112,823	117,618

[A] Includes interest on VAT recovered.

Investment Manager's Review

Economic Overview

The year under review got off to a slow start with small companies falling in value during November. Central banks dominated investor thinking. The economies of the US and UK were actually continuing with their recoveries as evidenced by the unemployment statistics which by January 2016 had fallen to their lowest levels since 2008 and 2010 respectively. Indeed by December 2015 the authorities in the US felt able to raise interest rates by 0.25%, the first such increase in nine years. However, they also cautioned that this rate cycle was likely to be shallower than normal. Despite there being much noise beforehand as to the potential impact on markets it was notable that investors broadly took the rate increase in their stride. It was and remains the case though that with so many market practitioners having never experienced a rising rate cycle, we have no real idea how markets will respond should rates start to rise in a more normal manner.

The Chinese economy remained a key area of concern for investors. However, the authorities still possessed conventional monetary policy tools which reduced the likelihood of a much feared hard landing. The data eventually showed that the country had grown at 6.9% during 2015. This represented the slowest performance for 25 years. The subsequent shift of focus from reform towards fiscal stimulus provided the markets with some confidence that growth would be sustained.

Equities had a poor start to 2016 with small companies having a particularly tough time, registering a decline of 5.7%. Sentiment continued to be dominated by concerns about a slowing of growth in China and the weakness of the oil price which fell below $30 per barrel for the first time in 12 years. It was not the only commodity price to suffer as copper reached a seven year low during the month. Investors faced significant uncertainties that, in addition to those outlined above, now also included the potential outcome of the UK's referendum on EU membership and the possible unintended consequences of a move into a world of zero or negative interest rates. In such an uncertain environment it was unsurprising that volatility was again to the fore.

A theme that had been present throughout the year was that of weakness in commodity prices and in particular Oil & Gas. This was having a significant impact on the share prices of commodity producers and the support companies that provide services to them.

Corporate management teams remained optimistic though with large company merger and acquisition activity a continuing feature. Although it ultimately failed, the attempt by Pfizer to acquire Allergan would have created the largest pharmaceutical company in the world. However, by early 2016 there were signs that despite the recovery that was evident across developed markets the confidence of executives was waning. This could be seen in slowing rates of investment which in turn placed pressure on expectations for future earnings growth. Indeed across the UK market the forecasts indicated that in aggregate we now faced a fifth consecutive year of declining profits.

The Bank of England revised its growth expectations downward for both 2015 and 2016 and with inflation remaining low, so expectations for rate increases in the domestic economy were also pushed into the future. Mario Draghi and the European Central Bank were taking a different approach and announced a further reduction in interest rates and an extension of the region's Quantitative Easing programme into 2017. However, that was insufficient to placate markets and many investors were disappointed that they did not go further. By the New Year Mr Draghi had been forced to refer to a "determination to act".

Come the spring, markets had taken a turn for the better and smaller companies were particularly strong, registering a total return of 4.9% during March and further gains in April and May. As had been evident over the previous two months there was something of a reversal in performance in the market with lower risk and value propositions doing better than the more highly rated momentum shares. The European Central Bank announced a further reduction in interest rates and an increase in the asset purchase programme, taking it from €60 billion to €80 billion each month. Importantly it also amended the programme to allow it to purchase debt from companies other than banks. It was hoped that this would aid the transmission mechanism by which the liquidity would find its way into the economy.

Emerging market economies were performing a little better, aided by the recovery that was occurring in commodity prices and the belief that US interest rates would rise more slowly than anticipated, thereby reducing the pressures on their currencies. Meanwhile, the UK economy continued to perform reasonably well registering growth of 2% during the first quarter. Europe was similarly stable and in the US there were upward revisions to the initially disappointing data. Indeed the Federal Reserve indicated that an interest rate rise was possible in the very near term.

By early summer, the UK's referendum on EU membership was causing significant uncertainty for investors and company managements alike. A growing number of organisations highlighted the potential risks that would accompany a decision to leave. The Bank of England joined the list of those warning of lower growth, higher inflation and weaker Sterling. Such negativity was weighing on investor appetite for risk. This came to a head in June when initial uncertainty surrounding the referendum gave way to a belief that the UK would vote to remain. Equities and

Sterling strengthened in response. Consequently markets suffered a significant negative reaction as a result of the surprise news that the result was in fact in favour of leaving the EU. However, although that meant material uncertainty regarding the prospects for the UK economy one immediate outcome was a substantial weakening of the currency. Many UK companies, particularly larger ones, were a beneficiary of this. However, with smaller companies having a greater orientation to the domestic economy they did not perform as strongly as their larger brethren and in June the FTSE SmallCap Index (excluding Investment Companies) declined by 5.3% on a total return basis. Positively, by late July markets had recouped all their losses and went on to finish the year nicely ahead of their pre referendum levels. Property companies and in particular smaller developers were particularly hard hit and did not benefit from the improvement in sentiment. The portfolio has very limited exposure to such businesses.

After initially keeping interest rates on hold, the Bank of England subsequently responded to signs of a slowdown in the UK economy. Interest rates were reduced to 0.25%. A Term Funding Scheme was created to encourage banks to lend, the existing asset purchase programme for gilts was increased by £60 billion to £435 billion and a small programme of corporate bond purchases was introduced. It was interesting that the economic data relating to the vote was mixed. On the one hand, and perhaps unsurprisingly, sentiment indicators were generally weak, pointing to an impending slowdown in the domestic economy. However, the hard data told a different story with the likes of retail sales and labour market readings all showing no discernible impact from Brexit.

Late in the financial year the Conservative Party conference reminded investors that there was still a great deal of uncertainty surrounding Britain's exit from the EU. The rhetoric surrounding immigration controls and the ruling out of the Norwegian and Swiss models of interaction with the EU raised the probability of so called 'hard Brexit'. This resulted in further pressure on Sterling which weakened markedly over the month, finishing the year at levels not seen since the 1980s.

Portfolio Review

Key contributors to performance for the year included; RPC, Dechra Pharmaceuticals and two recent introductions Burford Capital and Smart Metering Systems.

RPC sells rigid plastic packaging solutions into a wide array of end markets. The industry is benefitting from the on-going shift from relatively heavy glass and metal packaging to lighter weight plastics. The company has continued to be successful, consolidating the more technically advanced areas of this market and, as a result of a well-established integration process, they have consistently delivered synergies ahead of those originally expected.

Dechra Pharmaceuticals is another company that benefits from structural growth in its end markets as more people spend greater amounts on the care of their companion animals. In addition they have successfully used acquisitions to enter both new geographies and end markets. The business has built a valuable portfolio and pipeline of novel animal pharmaceuticals in tightly defined niches. These provide protection from some of the more negative features of the pharmaceutical industry. Namely, costly and complicated research and development followed by the certainty of huge price deflation when products genericise.

Burford Capital has enjoyed a very strong period of realisations from its portfolio of litigation assets. However such events are by definition unpredictable and the management display refreshing honesty when they say that it is frankly impossible to forecast their likely performance on a period by period basis. However, with a strong balance sheet, high and growing levels of demand for their products and disciplined lending process the company is well set to grow into the future. It is an increasing appreciation of these characteristics more than the recent trading that has led to a solid performance from the shares.

Smart Metering Systems had a good year, successfully executing their contracted order book and securing a healthy stream of long term profits and cash flows for the business. However, they have had other important successes. The company has announced that it has signed contracts with several independent utility companies for the provision of residential smart meters. This will be a very large market and they only need a relatively small share of it to make a very significant difference to the value of the company. To date they have been more successful than many investors anticipated and this has been reflected in the share price. The ability to deliver on these contracts will be vital and therefore it is pleasing that they have made two relatively small acquisitions that give them control of their installation supply chain and hence a competitive advantage.

In terms of investments that detracted from performance these included; Mothercare, Interserve and Savills.

Mothercare has again been a negative contributor for the Company. They have experienced a material slowing in their International business in particular in the Middle East and Russia. Although perhaps not immediately apparent this is a result of the fall in the oil price. The Middle East in particular has seen much less stimulation from the ruling authorities and this has fed through to weakened consumer spending which has impacted the company. It is frustrating that this has happened at a time when the original cause of the company's problems, its UK operations, have shown signs of improvement.

Interserve has a construction division. In common with many similar businesses it has found the UK a difficult place to secure business and it has ventured into new markets. These have included the design and building of waste to energy facilities. These have been much larger and riskier projects than the company is used to fulfilling and in Glasgow in particular they have found themselves unable to satisfy the terms of their contract. They also surprised the market when having announced a strategic review of their Equipment Service division they then opted to retain it. We will not speculate on their reasons for doing so but it is clear that had they sold it the proceeds would have given a boost to investor confidence that they could afford to rectify the construction division's problems without over leveraging the balance sheet.

Savills is an example of a company whose share price suffered significantly as a result of Brexit. Whilst the UK real estate operations are likely to experience more difficult conditions the business is much more than this. It has a global footprint and, importantly, around half the profits come from property management and consultancy services which have a much lower correlation to housing transaction volumes. As investors have moved away from an initial knee jerk reaction towards a more fundamentally driven view so the share price has staged something of a recovery since the year end.

Portfolio Activity

We introduced four new holdings during the year. Each company is a leader in its respective market and we believe that they bring beneficial diversification to the portfolio.

Smart Metering Systems are a leading meter rental company serving the electricity and gas utilities. They benefit from a highly visible recurring, long term revenue stream underpinned by the blue chip nature of their customer base. The current and contracted business should provide attractive profits and cash flows. However, they also have a very significant opportunity with the impending roll out of domestic smart meters. The company has a strong position in the supply chain which gives confidence that they will be able to execute effectively on a programme that has the potential to be company changing.

Cairn Homes is a Dublin-based house builder which listed on the London Stock Exchange in mid-2015. The two founders bring a combination of Irish housebuilding experience and real estate investing. The Irish market is experiencing supply shortages of new homes, particularly in and around Dublin. However, the ability to ameliorate this is restricted because 80% of the best quality development land is owned by the National Asset Management Agency ("NAMA"), an organisation that is unable to develop it. Meanwhile many of the individuals with the required skills set are precluded from involvement in the market due to personal and bankruptcy proceedings.

The Cairn premise is relatively simple. Namely to take advantage of a lack of demand for good quality residential building land in order to rapidly acquire a with-planning consent 10,000 unit land bank and then to move to a build out phase running at 1,500 homes annually by 2018. Assets are being sourced from both NAMA and the banks. Planning is a minimal issue because assets are bought with consent.

The market sees prices that are still 40% below their 2007 peak. Demand is running at 25,000 – 30,000 units per annum, supported by a strongly recovering economy, with two thirds of demand coming from the Dublin area. A lack of credit availability is restricting demand and hence there has been significant growth in volumes and rates in the rental market. An easing of credit supply would be expected to drive further buying demand. Build rates are just 10,000 units per annum.

The company has largely completed the land bank acquisition phase and will now transition to building it out and hence will become cash generative. The balance sheet will be run conservatively with a maximum gearing of 25%. In essence we see this as an opportunity to capitalise on similar dynamics to those that were present in the mainland housebuilding market following the last downturn, whilst also capitalising on valuations of both land and housebuilding companies which are well below those evident elsewhere in the sector.

Burford Capital is a provider of litigation financing. The business was founded by its CEO, Chris Bogart. There are two key drivers for the take up of this form of financing. Law firms welcome it because their partnership-based model prevents them accessing external capital to fund lengthy legal cases. Secondly the litigants are incentivised to use it because it allows them to avoid carrying litigation costs through their profit and loss statements. Conventional financing can result in the perverse situation whereby winnable cases are not pursued because of the accounting and presentational technicalities. In such a situation the claimant is often willing to share the proceeds of a successful claim on generous terms with the provider of funding. The business finances itself with equity and retail bonds and also has some contingent preference share capital available should it be required. Bank debt is not utilised.

We believe that the attractions of the investment are the lack of correlation between Burford's returns and the economic cycle. US commercial tort costs have grown at nominal GDP +2% since 1950. In addition the business could be regarded as having characteristics similar to venture capital but with more certainty over the ability to secure an exit.

Assura is a UK REIT investing in and developing primary care property. There has been some yield compression but nothing like the levels seen elsewhere in the real estate sector, meaning that yields in excess of 5% are achievable. There are almost 9,000 GP buildings so the pool of potential assets is sizeable. The portfolio has grown very significantly over the last seven years. Currently 100% of debt is fixed but an increasing amount of floating rate debt will be utilised which will deliver a natural earnings benefit as a result of lower interest costs. Rents are either inflation linked or subject to open market review which has historically produced increases ahead of inflation. There is a growing pipeline of development opportunities following an NHS reorganisation that had caused a hiatus over the two prior years. This is important because newly developed assets with higher rentals drive up market rents for other assets. The rental stream has the benefit of being quasi government backed and occupancy is in the high 90%'s.

The company has participated in this market since 2003 and the goal is to be the leading investor in the sector. We believe that Assura have two advantages relative to their competitors, namely lower levels of leverage following an equity raise and a medium term loan to value target of 40% - 50%. Additionally the dividend is better covered by the core earnings of the business.

We sold out of four holdings from the portfolio. **Bellway** had been a very successful investment for us. However as the UK housing market has recovered strongly post the recession so companies like this have done very well. We believed that the valuation was pricing in a permanently favourable outlook and we considered that this was unduly optimistic. Although the two decisions were separate, the proceeds from the disposal were utilised to fund the introduction of Cairn Homes. **The Restaurant Group** has seen a significant, indeed arguably structural, change to its market. Specifically, as e-commerce takes a greater share of the retail pie, those assets located on sites where shopping is the key driver of footfall are finding it difficult to sustain, let alone grow, sales. The company remains a fine operator but we believe that the task of repositioning the business will be complex and lengthy and as such we decided to exit the holding. **Bloomsbury Publishing** is a business best known for the Harry Potter franchise. They have a long term strategy to seek to adjust to their increasingly digitised markets. We believe that the company faces a prolonged period of low earnings growth with no guarantee that they will be successful in making the necessary transition. Therefore, we felt there were more attractive opportunities for us to invest in. **Numis** had been held in the portfolio for over a decade. We believed that although this was a deeply cyclical business they had an opportunity to build a franchise that was able to deliver through cycle growth and that they had a balance sheet that gave them the flexibility to capitalise on this opportunity. Falling commission rates for stock brokers have been evident for several years. The situation now looks set to deteriorate further with regulatory interventions reducing the opportunities for the company to make money from institutional broking. With pressures rising on fund managers' margins there will be reduced levels of fees available for research provided by the sell side. We concluded that the long term prospects for the company were insufficiently attractive for it to warrant a position in the portfolio.

Two of the investments in the portfolio had material capital raisings during year. In both cases these were to help them fund acquisitions that will support future growth by these companies, hence we participated on each occasion. **Dechra Pharmaceuticals** conducted a £50 million placing to aid their purchase of Putney. This brings them an entry into the US generic animal pharmaceuticals market and secures them scale in that geography. The US has been growing very strongly for the company and the pipeline of additional medicines should help to secure such growth well into the future.

RPC, the plastic packaging company, conducted a £230 million rights issue to partially finance their acquisition of Global Closure Systems. This deal is a continuation of their well-worn path that sees them consolidating the European markets. Such a strategy has to date yielded sizable cost synergies from each purchase and there is every reason to believe that these benefits will continue to accrue to shareholders.

Although the equity raising was completed in the prior financial year, **BBA Aviation** completed their purchase of the Landmark portfolio of fixed base operations during the year. We think that the logic behind this transaction is sound. Namely that it will deliver scale in an industry where network density and connectivity is a key competitive advantage. Although still early days the signs so far are that the benefits are materialising as hoped.

Stewardship

We believe that as long term owners of the businesses in which we are invested it is not sufficient merely to seek out assets that we believe to be undervalued, it is incumbent upon us to take a proactive approach to our stewardship of these companies. Therefore we engage extensively with our investee companies. By their very nature, these discussions often take place with a broader constituency than just the executive management teams. They are frequently sensitive and it would be inappropriate to move beyond generalisations in this report. However, we believe it is useful to seek to illustrate the depth of our activity in this area. We have attended a range of meetings with chairmen, non-executive directors and other stakeholders. Topics covered have included the composition of Boards, an area where we have successfully engineered change. Risk is a very broad subject that is interpreted in varying manners by different companies. However, by engaging on this subject we secure a deeper understanding of how the boards of our investee companies perceive and seek to manage these issues. Such interactions also enable us to push for improved disclosure and better management practices and on occasion different decisions where appropriate. We have had conversations regarding companies' financing choices. We find that it is always worthwhile communicating our preference for conservatively structured balance sheets that place a company's long term fortunes ahead of possible short term share price gains. Such activity is by its nature time consumptive but we regard it as an integral aspect of our role as long term investors.

Outlook

Global growth looks set to improve next year aided by an on-going recovery in the US, Russia and Brazil exiting recession and a Chinese economy that increasingly looks to have stabilised, albeit at levels of expansion below those enjoyed previously. However, the risks posed by Brexit, the fragility of the European banking system alongside various regional elections and the impending change of Administration in the US all mean that there are significant uncertainties facing investors, companies and consumers.

The US economy is still making progress as evidenced by solid employment data and indications that interest rates are likely to be raised again later this year. Brexit has so far been more of a political shock than an economic one in the Eurozone and the region remains on course to grow by around 1.6% this year. Chinese growth is holding steady but factors such as weak corporate investment and loss of momentum in real estate suggest a need for further stimulus if the current level of expansion is to be maintained.

It is not only investors that do not know what the post Brexit landscape will look like, company management teams and consumers are equally unsure. A period of slower activity is therefore to be expected and some of the economic and confidence surveys that have been released since the vote support this. As a result of this uncertainty companies that have actually traded quite well during 2016 find themselves having to inject caution into their outlook statements. However, that does not mean that the long term prospects for the economy have been irretrievably damaged. Whilst earnings expectations have declined slightly compared to forecasts pre the vote, they have not declined by anything like as much as the more negative commentary for the outlook for the economy as a whole would suggest. Indeed it is notable that as more data has become available some of the most downbeat commentators have been forced to shift to a less extreme position.

In the meantime Sterling weakness is being regarded as a positive for the profitability of many UK companies and hence equity markets. That holds true to a point but devaluing the currency is not a panacea and brings with it the risk of future inflation with some economists now forecasting that it will reach 3% by the middle of 2017. That could be problematic given the difficulty of using conventional policy to address the issue. As we consider the companies in the portfolio we note that although trading is generally fine they too are suffering from the uncertainty that surrounds the shape of our future relationship with Europe. A temporary hiatus is manageable but a prolonged period of constrained investment will impact the medium term prospects.

Ed Beal
Aberdeen Asset Managers Limited
15 December 2016

Portfolio

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Portfolio

Ten Largest Investments

As at 31 October 2016

Company	Sector classification	Valuation 2016 £'000	%	Valuation 2015 £'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	5,034	4.1	4,824
Dechra Pharmaceuticals Dechra develops and manufactures veterinary pharmaceuticals. They focus on the companion animal market. Veterinary pharmaceuticals are much less susceptible to generic competition than human drugs. The company has excellent opportunities to expand further into both Europe and the US.	Pharmaceuticals & Biotechnology	4,700	3.8	4,164
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 focused 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	4,573	3.7	4,263
Fisher (James) & Sons James Fisher is a leading provider of marine services. The company has a broad product portfolio of critical services making it a key partner for owners of marine assets. The company is active in the shipping, oil and gas, nuclear, offshore wind and submarine rescue markets.	Industrial Transportation	4,013	3.3	3,214
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	3,743	3.1	3,881
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	3,707	3.0	3,386
Elementis Elementis is a global specialty chemicals company comprising three businesses. Specialty Products produces rheology additives that enhance the flow characteristics of liquids in a wide range of applications, such as in coatings, cosmetics and oilfield drilling. Surfactants produces surface active ingredients. Chromium manufactures a range of chromium chemicals.	Chemicals	3,509	2.9	3,456
AVEVA Group AVEVA Group markets and develops computer software and services for engineering and related solutions.	Software & Computer Services	3,367	2.7	3,759
BBA Aviation BBA Aviation are the leading provider of services to the US private jet market. This is a business where network density and scale are competitive advantages because they allow its customers to fly to where they want from where they want. The business has recently acquired the assets of a sizable competitor, the deal has served to further enhance BBA's number one position.	Industrial Transportation	3,323	2.7	3,323
Smart Metering Systems Smart Metering Systems are the UK's leading independent meter rental company. The business benefits from high levels of contracted, long term and repeat revenues. These translate into an attractive stream of cash flows that support further growth. The on-going roll out of smart meters across the residential gas and electricity markets represents a substantial opportunity for the company.	Support Services	3,307	2.7	–
Ten largest investments		39,276	32.0	

Portfolio

Other Investments

As at 31 October 2016

Company	Sector classification	Valuation 2016 £'000	%	Valuation 2015 £'000
Victrex	Chemicals	3,274	2.7	3,071
Hansteen Holdings	Real Estate Investment Trusts	3,218	2.6	3,715
Ultra Electronic	Aerospace & Defence	3,140	2.5	2,844
Acal	Support Services	3,046	2.5	3,310
Oxford Instruments	Electronic & Electrical Equipment	2,904	2.4	1,941
Robert Walters	Support Services	2,795	2.3	2,494
Fuller Smith & Turner 'A'	Travel & Leisure	2,777	2.3	3,139
Genus	Pharmaceuticals & Biotechnology	2,758	2.2	1,688
Morgan Sindall	Construction & Materials	2,753	2.2	3,161
Interserve	Support Services	2,650	2.2	2,905
Twenty largest investments		68,591	55.9	
Fenner	Industrial Engineering	2,646	2.1	2,008
Devro International	Food Producers	2,583	2.1	3,362
Burford Capital	Financial Services	2,583	2.1	–
Rathbone Brothers	Financial Services	2,546	2.1	2,800
Dignity	General Retailers	2,529	2.1	2,796
Cairn Homes	Household Goods & Home Construction	2,484	2.0	–
Exova	Support Services	2,433	2.0	1,560
Abcam	Pharmaceuticals & Biotechnology	2,404	2.0	2,620
Manx Telecom	Fixed Line Telecommunications	2,372	1.9	2,595
Xaar	Electronic & Electrical Equipment	2,307	1.9	1,518
Thirty largest investments		93,478	76.2	
Chesnara	Life Insurance	2,158	1.7	1,985
Savills	Real Estate Investment & Services	2,110	1.7	2,345
Intermediate Capital Group	Financial Services	2,011	1.6	2,115
Barr (A.G.)	Beverages	1,932	1.6	1,678
Berendsen	Support Services	1,816	1.5	3,649
Assura	Real Estate Investment Trusts	1,686	1.4	–
Stock Spirits Group	Beverages	1,589	1.3	1,175
TT Electronics	Electronic & Electrical Equipment	1,512	1.2	1,977
Mothercare	General Retailers	1,417	1.2	2,897
Keller Group	Construction & Materials	1,302	1.1	1,394
Forty largest investments		111,011	90.5	
Helical Bar	Real Estate Investment & Services	1,244	1.0	3,030
Huntsworth	Media	1,203	1.0	1,426
Enquest	Oil & Gas Producers	983	0.8	1,193
Total investments		114,441	93.3	
Net current assets		8,177	6.7	
Total assets less current liabilities		122,618	100.0	

Portfolio

Sector Analysis

As at 31 October 2016

		FTSE SmallCap Index (ex IC's) weighting %	Portfolio weightings 31 October 2016 %	31 October 2015 %
Basic Materials	Chemicals	0.52	5.93	5.77
	Industrial Metals	0.39	–	–
	Mining	3.13	–	–
		4.04	**5.93**	**5.77**
Consumer Goods	Beverages	0.83	3.08	2.52
	Food Producers	2.20	2.26	2.97
	Household Goods & Home Construction	2.58	2.17	2.01
	Leisure Goods	0.77	–	–
	Personal Goods	0.40	–	–
		6.78	**7.51**	**7.50**
Consumer Services	Food & Drug Retailers	0.36	–	–
	General Retailers	4.22	3.45	5.03
	Media	4.16	7.56	8.93
	Travel & Leisure	3.78	2.43	4.04
		12.52	**13.44**	**18.00**
Financials	Financial Services	3.67	6.24	5.57
	Life Insurance	1.33	1.89	1.75
	Non-life Insurance	1.35	–	–
	Real Estate Investment & Services	5.65	2.93	4.75
	Real Estate Investment Trusts	9.58	4.29	3.28
		21.58	**15.35**	**15.35**
Health Care	Health Care Equipment & Services	2.29	–	–
	Pharmaceuticals & Biotechnology	0.75	8.62	7.49
		3.04	**8.62**	**7.49**
Industrials	Aerospace & Defence	1.90	2.74	2.51
	Construction & Materials	5.14	3.54	4.03
	Electronic & Electrical Equipment	5.05	9.87	8.57
	General Industrials	–	4.40	4.26
	Industrial Engineering	2.97	2.31	1.78
	Industrial Transportation	2.43	6.41	5.78
	Support Services	20.41	14.01	12.30
		37.90	**43.28**	**39.23**
Oil & Gas	Oil & Gas Producers	4.67	0.86	1.05
	Oil Equipment, Services & Distribution	1.37	–	–
		6.04	**0.86**	**1.05**
Technology	Software & Computer Services	3.08	2.94	3.32
	Technology Hardware & Equipment	3.36	–	–
		6.44	**2.94**	**3.32**
Telecommunications	Fixed Line Telecommunications	1.66	2.07	2.29
		1.66	**2.07**	**2.29**
Total equities		**100.00**	**100.00**	**100.00**

Governance

The Company is registered as a public limited company and has been approved by HM Revenue & Customs as an investment trust. The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship of the Manager.

The Forth Bridge, 9 miles west
of Edinburgh city centre

Your Board of Directors

The current Directors' details, all of whom are non-executive and independent of the Manager, are set out below. The Directors supervise the management of the Company and represent the interests of shareholders.

N M Yarrow

Status: Independent Non-Executive Chairman

Length of service: 18 years, appointed a Director on 21 May 1998 and Chairman on 5 February 2015

Experience: is a former director of NVM Private Equity and is currently a director of Hillhouse Estates. He is member of the Institute of Chartered Accountants of Scotland.

Last re-elected to the Board: 3 February 2016

Committee membership: Management Engagement Committee (Chairman), Audit Committee and Nomination Committee

T J K Barnes

Status: Senior Independent Non-Executive Director

Length of service: 13 years, appointed a Director on 1 December 2003

Experience: formerly Chief Executive of Dobbies Garden Centres plc and a former investment banker. Currently Chairman of Thirlestane Castle Trust and Elixir Foods Limited and a director of The Business Partnership Limited.

Last re-elected to the Board: 3 February 2016

Committee membership: Nomination Committee (Chairman), Audit Committee and Management Engagement Committee

A Henderson

Status: Independent Non-Executive Director

Length of service: 2 years, appointed a Director on 6 February 2014

Experience: was a chartered accountant with KPMG and Arthur Andersen in Edinburgh and Melbourne and a director of the WM Company, a Deutsche Bank company. Currently a non-executive director and chair of the audit committee of Adam and Company and a non-executive director of JPMorgan Japan Smaller Companies Trust PLC, F&C UK Real Estate Investments Limited, Bravura Solutions Limited (a company listed on the Australian Securities Exchange) and James Walker (Leith) Limited. She is a member of the Institute of Chartered Accountants of Scotland.

Elected to the Board: 5 February 2015

Committee membership: Audit Committee (Chairman), Management Engagement Committee and Nomination Committee

C M D Thomson

Status: Independent Non-Executive Director

Length of service: 2 years, appointed a Director on 1 January 2015

Experience: is Head of Kleinwort Hambros, Scotland. Also founder and trustee of The Jamath Charitable Trust and secretary to The National Museums of Scotland Charitable Trust, The Edinburgh International Festival Endowment Fund and four other charitable foundations. He is a member of the Chartered Institute for Securities and a Chartered Wealth Manager.

Elected to the Board: 5 February 2015

Committee membership: Audit Committee, Management Engagement Committee and Nomination Committee

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 October 2016.

Results and Dividends

The financial statements for the year ended 31 October 2016 are contained on pages 43 to 58.

An interim dividend of 2.15p (2015 – 2.15p) per share was paid on 29 July 2016 and the Board recommends that a final dividend of 4.00p (2015 – 3.85p) per share is paid on 10 February 2017 to shareholders on the register on 13 January 2017. The ex-dividend date is 12 January 2017. A resolution in respect of the final dividend will be proposed at the Annual General Meeting.

Investment Trust Status

The Company is registered as a public limited company (registered in Scotland No. SC014692) and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company has been approved by HM Revenue & Customs as an investment trust subject to it continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 November 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 October 2016 so as to enable it to comply with the ongoing requirements for investment trust status.

Individual Savings Accounts

The Company has conducted its affairs 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.

Capital Structure

At 31 October 2016, the Company had 47,857,317 fully paid Ordinary shares of 5p each (2015 – 47,857,317 Ordinary shares). There have been no changes in the Company's issued share capital subsequent to the year end and up to the date of this Report.

Voting Rights

Each Ordinary share holds one voting right and shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares, excluding any treasury shares, carry a right to receive dividends. On a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law.

Management Agreement

The Company has appointed Aberdeen Fund Managers Limited, a wholly owned subsidiary of Aberdeen Asset Management PLC, as its alternative investment fund manager. AFML has been appointed to provide investment management, risk management, administration and company secretarial services to the Company as well as to carry out promotional activities on the Company's behalf. The Company's portfolio is managed by Aberdeen Asset Managers Limited by way of a group delegation agreement in place between AFML and AAML. In addition, AFML has sub-delegated promotional activities to AAML and administrative and secretarial services to Aberdeen Asset Management PLC. Fees payable for promotional activities are shown in note 4 to the financial statements.

The basic management fee, details of which are shown in note 3 to the financial statements, is 0.4% per annum of adjusted gross assets. There is also a performance-related fee which, during the year, was 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 outperformed the capital performance of the benchmark index over the previous 12 month period.

As disclosed in the Chairman's Statement on page 5, the Board has agreed with the Manager that, with effect from 1 November 2016, the performance-related fee will be calculated on an annual basis in respect of the performance of the Company for the preceding financial year, rather than on a quarterly basis. There are no changes to the rate of performance fee, including the maximum rate per annum, and all other terms of the management agreement are unchanged.

The management agreement may be terminated by either party on three months' written notice. In the event of termination by the Company on less than the agreed notice period, compensation is payable to the Manager in lieu of the unexpired notice period.

Substantial Interests

As at 31 October 2016 the following interests in the issued Ordinary share capital of the Company had been disclosed in accordance with the requirements of the FCA's Disclosure Guidance and Transparency Rules:

Shareholder	Number of shares held	% held
Aberdeen Asset Managers Retail Plans[A]	12,268,165	25.6
Aberdeen Asset Managers	7,676,334	16.0
Derbyshire County Council	3,269,000	6.8
D C Thomson & Company Ltd	2,030,000	4.2

[A] Non-beneficial interests

Since the end of the year, Aberdeen Asset Managers has disclosed that its holding has changed to 7,643,834 shares (15.9%). There have been no other changes notified to the Company as at the date of approval of this Report.

Directors

The Board consists of four independent non-executive Directors. The names and biographies of each of the Directors are shown on pages 26 and 27 and indicate their range of experience as well as length of service.

The Directors attended scheduled Board and Committee meetings during the year ended 31 October 2016 as follows (with their eligibility to attend the relevant meeting in brackets):

Director	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
N M Yarrow (Chairman)	4 (4)	2 (2)	1 (1)
T J K Barnes	3 (4)	2 (2)	1 (1)
A Henderson	4 (4)	2 (2)	1 (1)
C M D Thomson	4 (4)	2 (2)	1 (1)

Having served for more than nine years, Mr T J K Barnes and Mr N M Yarrow retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board believes that Messrs Barnes and Yarrow remain independent of the Manager and free of any relationship which could materially interfere with the exercise of their judgement on issues of strategy, performance, resources and standards of conduct and confirms that, following formal performance evaluations, the individuals' performance continues to be effective and demonstrates commitment to the role. The Board therefore recommends the re-election of Messrs Barnes and Yarrow at the Annual General Meeting.

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 is 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 them in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to or in connection with their 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.

Management of Conflicts of Interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, each Director prepares a list of other positions held and all other conflict situations that may need to be authorised either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential, or actual, conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed at each Board meeting.

No Director has a service contract with the Company although all Directors are issued with letters of appointment. There were no contracts during the year in which any Director was interested.

The Board takes a zero tolerance approach to bribery and has adopted appropriate procedures designed to prevent bribery. The Manager also takes a zero tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption.

Corporate Governance

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 (the "UK Code"), as published in September 2014 and effective for financial years commencing on or after 1 October 2014, which is available on the Financial Reporting Council's website: frc.org.uk.

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance as published in February 2015 (the "AIC Code") by reference to the AIC Corporate Governance Guide for investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The AIC Code and AIC Guide are available on the AIC's website: theaic.co.uk.

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

The Board confirms that, during the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive (A.1.2);
- executive directors' remuneration (D.1.1 and D.1.2); and
- the need for an internal audit function (C.3.6).

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that 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 full text of the Company's Corporate Governance Statement can be found on the Company's website.

Board Committees

The Directors have appointed a number of Committees as set out below. Copies of the terms of reference, which clearly define the responsibilities and duties of each Committee, are available upon request from the Company or from the Company's website. The terms of reference of each of the Committees are reviewed and re-assessed by the Board for their adequacy on an ongoing basis.

Audit Committee

The Audit Committee's Report is included on pages 36 to 38.

Management Engagement Committee

The Management Engagement Committee comprises all of the Directors and is chaired by Mr N M Yarrow. 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 at least an annual basis. In addition, the Committee conducts an annual review of the performance, terms and conditions of the main third party suppliers.

In the opinion of the Board, the Aberdeen Group has the appropriate secretarial, administrative and promotional skills required for the effective operation and administration of the Company. Furthermore, the Board remains satisfied with the capability of Aberdeen to deliver satisfactory investment performance. Accordingly, the Board 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.

Remuneration Committee

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.

Going Concern

The Company's assets consist substantially of equity shares in companies traded 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 £10 million are committed to the Company until 24 November 2017 and the Board believes that the Company will be able to refinance or repay the borrowings at that time. As such, the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this Report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 40, and 41 to 42.

Each Director confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor

The Company's auditor, KPMG LLP, has indicated its willingness to remain in office. The Directors will place resolutions before the Annual General Meeting to re-appoint KPMG LLP as auditor for the ensuing year and to authorise the Directors to determine its remuneration.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. Shareholders and investors may obtain up to date information on the Company through its website and the Manager's information service.

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (either the Company Secretary or the Manager) in situations where direct communication is required and representatives from the Board meet with major shareholders on at least an annual basis in order to gauge their views.

In addition, the Company Secretary only acts on behalf of the Board, not the Manager, and there is no filtering of communication. At each Board meeting the Board receives full details of any communications from shareholders to which the Chairman responds personally as appropriate.

The Notice of the Annual General Meeting included within the Annual Report 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 Annual General Meeting.

Participants in the Aberdeen Investment Trust Share Plan and ISA, whose shares are held in the nominee name of the plan administrator, are given the opportunity to vote at the Annual General Meeting by means of a Letter of Direction enclosed with the Annual Report. When forwarded to the plan administrator, the voting instructions given in the Letter of Direction will in turn be reflected in the proxy votes lodged by the plan administrator.

Annual General Meeting

The Annual General Meeting will be held at Discovery Point, Discovery Quay, Dundee DD1 4XA on 1 February 2017 at 12 noon. The Notice of Annual General Meeting is included on pages 67 to 70. Resolutions including the following business will be proposed.

Allotment of Shares

Resolution 9 will be proposed as an ordinary resolution to confer an authority on the Directors, in substitution for any existing authority, to allot up to 33% of the issued Ordinary share capital of the Company as at the date of the passing of the resolution (up to a maximum aggregate nominal amount of £789,645 based on the number of Ordinary shares in issue as at the date of this Report) in accordance with Section 551 of the Companies Act 2006. The authority conferred by this resolution will expire at the conclusion of the Annual General Meeting held in 2018 (unless previously revoked, varied or extended by the Company in general meeting).

The Directors have no current intention to utilise this authority but consider that the authority proposed is necessary to retain flexibility.

Issue of Treasury Shares

Resolution 10 will be proposed as a special resolution and seeks to renew the Directors' authority to sell or transfer Ordinary shares out of treasury for cash up to an aggregate nominal value representing 5% of the Company's issued Ordinary share capital as at the date of the passing of the resolution after taking account of any shares issued pursuant to resolution 11 (up to an aggregate nominal amount of £119,643 based on the number of Ordinary shares in issue as at the date of this Report). 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 10 is conditional on the passing of resolution 11.

The authority conferred by this resolution will give the Directors additional flexibility, and the Directors consider that it is in the interests 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 Annual General Meeting to be held in 2018.

Limited Disapplication of Pre-emption Provisions

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 11) at the Annual General Meeting which, if passed, will allow them to allot shares (and securities convertible into shares) for cash up to an aggregate nominal

Directors' Report continued

value representing 5% of the Company's issued Ordinary share capital as at the date of the passing of the resolution (up to an aggregate nominal amount of £119,643 based on the number of Ordinary shares in issue as at the date of this Report) as if Section 561(1) did not apply. This authority will lapse (unless renewed by the Company in general meeting) at the conclusion of the Annual General Meeting in 2018. New Ordinary shares would not be issued at a price that is less than the prevailing net asset value per share.

Share Repurchases

Resolution 12 will be proposed as a special resolution and will authorise the Company to make market purchases of its own Ordinary shares. The maximum aggregate number of Ordinary shares which may be purchased pursuant to the authority is 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of the resolution (approximately 7.2 million shares). The minimum price which may be paid for an Ordinary share is 5p (being the nominal value). The maximum price (exclusive of expenses) which may be paid for the shares is 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, 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 12, 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 Annual General Meeting of the Company to be held in 2018 (unless previously revoked, varied or renewed by the Company in general meeting).

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totaling 67,876 Ordinary shares, representing 0.14% of the issued Ordinary share capital of the Company.

By order of the Board
Aberdeen Asset Management PLC
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
15 December 2016

Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 6 February 2014;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

The law requires the Company's auditor to audit certain of the disclosures provided in the Directors' Remuneration Report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included on pages 41 to 42.

Remuneration Policy

This Directors' Remuneration Policy takes into consideration the principles of UK Corporate Governance and the AIC's recommendations regarding the application of those principles to investment companies. There have been no changes to the policy during the period of this Report nor are there any proposals for change in the foreseeable future.

No shareholder views were sought in setting the remuneration policy although any comments received from shareholders are considered.

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.

Directors' fees are set within the limits of the Company's Articles of Association which limit the annual aggregate fees payable to the Board of Directors each year. The current limit is £150,000 per annum and may only be increased by shareholder resolution.

The Board's policy is that the remuneration of non-executive Directors should be sufficient to attract Directors of the quality required to run the Company successfully. The remuneration should also reflect the nature of their duties, responsibilities, 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.

The current level of fees is set out in the table below. Fees are reviewed annually against RPI and, if considered appropriate, increased accordingly.

	31 October 2016 £	31 October 2015 £
Chairman	25,664	25,335
Chairman of Audit Committee	22,478	22,190
Director	19,251	19,004

Appointment

- The Company only intends to appoint non-executive Directors.
- All the Directors are non-executive and are appointed under the terms of letters of appointment.
- Directors must retire and be subject to election at the first Annual General Meeting after their appointment, and to be subject to re-election at least every three years thereafter. Directors with more than nine years' service are subject to annual re-election.
- A Director newly appointed to the Board will receive the fee applicable to each of the other Directors at the time of appointment together with any other fee then currently payable in respect of a specific role which the new Director is to undertake for the Company.
- No incentive or introductory fees will be paid to encourage a directorship.
- Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- Directors are entitled to re-imbursement of out-of-pocket expenses incurred in connection with the performance of their duties, including travel expenses.
- 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' Remuneration Report continued

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

A resolution to approve the Directors' Remuneration Policy will be proposed at the Annual General Meeting.

Implementation Report

Directors' Fees

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 to £25,664, £22,478 and £19,251 for the Chairman, Audit Committee Chairman and remaining Directors respectively, effective from 1 July 2016. There are no further fees to disclose as the Company has no employees, chief executive or executive directors.

Company 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 eight year period to 31 October 2016 (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 Annual General Meeting

At the Company's last Annual General Meeting, held on 3 February 2016, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 October 2015. 98.0% of proxy votes were in favour of the resolution, 1.3% were against, and 0.7% abstained.

A resolution to approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 October 2016 will be proposed at the Annual General Meeting.

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 are shown below.

Audited Information

Fees Payable

The Directors who served in the year received the following fees which exclude employers' National Insurance contributions:

Director	2016 £	2015 £
N M Yarrow[A]	25,445	24,353
The Earl of Dalhousie[B]	-	6,644
T J K Barnes	19,086	18,879
A Henderson[C]	22,286	21,218
C M D Thomson[D]	19,086	15,743
Total	**85,903**	**86,837**

[A] Appointed Chairman of the Board on 5 February 2015
[B] Retired on 5 February 2015
[C] Appointed Chairman of the Audit Committee on 5 February 2015
[D] Appointed on 1 January 2015

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 their connected persons) at 31 October 2016 and 31 October 2015 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 October 2016 Ordinary Shares	31 October 2015 Ordinary Shares
N M Yarrow	35,000	35,000
T J K Barnes	17,825	17,825
A Henderson	5,051	5,000
C M D Thomson	10,000	10,000

There have been no changes to the Directors' interests in the share capital of the Company since the year end and up to the date of this Report.

Annual Statement

In accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Board confirms that the above Directors' Remuneration Report summarises, as applicable, for the year ended 31 October 2016:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

On behalf of the Board
N M Yarrow
Director
15 December 2016

Audit Committee's Report

The Audit Committee presents its Report for the year ended 31 October 2016.

Committee Composition

The Audit Committee comprises the entire Board and is chaired by Ms A Henderson. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience – Mr Yarrow and Ms Henderson are both members of the Institute of Chartered Accountants of Scotland. In addition, the Board is satisfied that the Committee as a whole has competence relevant to the investment trust sector.

Functions of the Audit Committee

The principal role of the Audit Committee is to assist the Board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Committee has defined terms of reference which are reviewed and re-assessed for their adequacy on at least an annual basis. The terms of reference are published on the Company's website and are available from the Company on request.

The Committee's main audit review functions are listed below:

- to review and monitor the internal control systems and risk management systems (including the review of non-financial risks) on which the Company is reliant;
- to consider whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half-yearly and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager;
- 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 annual and half-yearly financial statements, announcements and related formal statements;
- to review the content of the Annual Report 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 position and 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 Committee 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. Fees paid to the auditor during the year for non-audit services were £5,000 (2015 - £5,000) and related to a review of the Half-Yearly Financial Report. The Committee will review any future fees in the light of statutory requirements and the need to maintain the auditor's independence;
- to review a statement from the Aberdeen Group detailing the arrangements in place within Aberdeen whereby its 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; and
- to monitor and review the auditor's independence, objectivity, effectiveness, resources and qualification.

Activities During the Year

The Audit Committee met twice during the year when it considered the Annual Report and the Half-Yearly Financial Report in detail. Representatives of the Aberdeen Group's internal audit, risk and compliance departments reported to the Board at these meetings on matters such as internal control systems, risk and the conduct of the business in the context of its regulatory environment.

Internal Control

The Board confirms that 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 2016 and up to the date of approval of the Annual Report, that it is regularly reviewed by the Board and accords with the FRC's guidance on internal controls.

The Board has overall responsibility for ensuring that there is a system of internal controls in place and a process for reviewing its effectiveness. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and by its nature can only provide reasonable and not absolute assurance against mis-statement or loss.

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; promotional activities; gearing; regulatory and 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.
Clear lines of accountability have been established between the Board and the Manager. The Board receives regular

reports covering key performance and risk indicators and considers control and compliance issues brought to its attention. In carrying out its review, the Board has had regard to the activities of the Aberdeen Group, the Aberdeen Group's internal audit and compliance functions and the auditor.

The Board has reviewed the effectiveness of the Aberdeen Group's system of internal control including its annual internal controls report prepared in accordance with the International Auditing and Assurance Standards Board's International Standard on Assurances Engagements ("ISAE") 3402, "Assurance Reports on Controls at a Service Organization". The Board has also reviewed Aberdeen's process for identifying and evaluating the significant risks faced by the Company and the policies and procedures by which these risks are managed.

Risks are identified and documented through a risk management framework by each function within the Aberdeen Group's activities. Risk is considered in the context of the FRC Guidance and includes financial, regulatory, market, operational and reputational risk. This helps the internal audit risk assessment model identify those functions for review. Any weaknesses identified are reported to the Company and timetables are agreed for implementing improvements to the systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

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

- 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;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance; the emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception;
- as a matter of course the Aberdeen Group's compliance department continually reviews the Aberdeen Group's operations; and
- at its meeting in December 2016, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2016 by considering documentation from the Aberdeen Group, including the internal audit and compliance functions and taking account of events since 31 October 2016.

The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Aberdeen Group, has decided to place reliance on the Aberdeen Group's systems and internal audit procedures. An internal audit function specific to the Company is therefore not considered necessary.

Financial Statements and Significant Issues

During its review of the Company's financial statements for the year ended 31 October 2016, the Audit Committee considered the following significant issues, in particular those communicated by the auditor during its planning and reporting of the year end audit:

Valuation and Existence of Investments

How the issue was addressed - The Company's investments have been valued in accordance with the stated accounting policies as disclosed in note 1 to the financial statements. All of the investments are in quoted securities in active markets, are considered to be liquid and have been categorised as Level 1 within the FRS 102 fair value hierarchy. The portfolio holdings and their pricing is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company uses the services of an independent Depositary (BNP Paribas Securities Services, London Branch) to hold the assets of the Company. The Depositary checks the consistency of its records with those of the Manager on a monthly basis.

Recognition of Investment Income

How the issue was addressed - The recognition of investment income is undertaken in accordance with the stated accounting policies. In addition, the Directors review the Company's income, including income received, revenue forecasts and dividend comparisons at each Board meeting.

Maintenance of Investment Trust Status

How the issue was addressed - Approval of the Company as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 for financial years commencing on or after 1 November 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager and reported at each Board meeting.

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

Audit Committee's Report continued

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 audit director).

In reviewing the auditor, the Committee also takes account of the FRC's Audit Quality Inspection Report for KPMG LLP and KPMG Audit Plc.

Tenure of the Auditor

KPMG LLP, or various KPMG entities ("KPMG"), have held office as auditor for more than 20 years. In accordance with present professional guidelines the audit director is rotated after no more than five years and the year ended 31 October 2016 will be the fifth year for which the present audit director has served. Under EU legislation which took effect for financial years beginning on or after 17 June 2016, listed companies are required to put their audit out to tender at least every 10 years and rotate their auditor at least every 20 years. However, under transitional arrangements for companies that had been audited by the same auditor for between 11 and 20 years at the time of the enactment of the EU legislation in 2014, there is a grace period of nine years after the enactment of the legislation. Accordingly, based upon the new legislation, KPMG will not be able to act as auditor to the Company after 2023. The Audit Committee has not decided when to put the audit out to tender but will consider doing so when the new audit director rotates following the 31 October 2021 year end, having completed his five year tenure.

The Audit Committee is satisfied that KPMG is independent and therefore supports the recommendation to the Board that the re-appointment of KPMG LLP be put to shareholders for approval at the Annual General Meeting.

A Henderson Alexa Henderson
Chairman of the Audit Committee
15 December 2016

Financial Statements

The Company's net asset value total return for the year ended 31 October 2016 was 7.0%, comparing favourably with a total return of 6.7% from our benchmark, the FTSE SmallCap Index (ex Investment Companies).

The companies in the portfolio have wide and varied geographic exposures. The positive performance for the year arose from a range of businesses with exposure to diverse end-markets.

The Board proposes a final dividend of 4.00p per share. When combined with the interim dividend, the total dividend for the year will amount to 6.15p, an increase of 2.5%, and equivalent to a yield of 3.0% based on the year end share price.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report 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, including FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make 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 Strategic Report, 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;
- 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 position and performance, business model and strategy; 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.

On behalf of the Board
N M Yarrow
Director
15 December 2016

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

Opinions and Conclusions Arising From Our Audit

Our opinion on the financial statements is unmodified
We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC for the year ended 31 October 2016 set out on pages 43 to 58. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2016 and of its return for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 (unchanged from 2015):

Carrying amount of quoted investments (£114 million)(2015: 113m) Risk vs 2015: [◀▶]
Refer to page 37 of the Audit Committee's Report, page 47 (accounting policy) and page 51 (financial disclosures).

The risk - The Company's portfolio of quoted investments makes up 93% (2015: 96%) of the Company's total assets (by value) and is the key driver of results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement 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 response - Our procedures over the completeness, valuation and existence of the Company's quoted 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 investments in the portfolio to externally quoted prices; and
- agreeing 100% of investment holdings in the portfolio to independently received third party confirmations.

Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at £1.2 million (2015 - £1.17 million), determined with reference to a benchmark of total assets, of which it represents 1% (2015: 1%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £61,000 (2015: £59,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the administrator's head office in Dundee.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion:

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

We have nothing to report on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on pages 10 and 11, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the three years to 31 October 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

We have nothing to report in respect of the 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

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

understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the Audit Committee's Report 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, 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' statements, set out on pages 30 and 10 to 11, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 29 and 30 in the Directors' Report relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and Responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, 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/auditscopeukco2014a, 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.

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
20 Castle Terrace
Edinburgh EH1 2EG
15 December 2016

Statement of Comprehensive Income

		Year ended 31 October 2016			Year ended 31 October 2015		
	Notes	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Gains on investments	9	–	5,278	5,278	–	8,847	8,847
Income	2	3,459	–	3,459	3,538	–	3,538
Investment management fee	3	(116)	(377)	(493)	(117)	(595)	(712)
Administrative expenses	4	(450)	–	(450)	(432)	–	(432)
Currency losses		–	(4)	(4)	–	–	–
Net return before finance costs and taxation		2,893	4,897	7,790	2,989	8,252	11,241
Finance costs	5	(31)	(93)	(124)	(35)	(105)	(140)
Return on ordinary activities before taxation		2,862	4,804	7,666	2,954	8,147	11,101
Taxation	6	–	–	–	–	–	–
Return on ordinary activities after taxation		**2,862**	**4,804**	**7,666**	**2,954**	**8,147**	**11,101**
Return per Ordinary share (pence)	8	5.98	10.04	16.02	6.17	17.02	23.19

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

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

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

Statement of Financial Position

	Notes	As at 31 October 2016 £'000	As at 31 October 2015 £'000
Non-current assets			
Investments at fair value through profit or loss	9	114,441	113,158
Current assets			
Debtors and prepayments	10	328	305
Cash and short term deposits		8,122	5,529
		8,450	5,834
Creditors: amounts falling due within one year			
Other creditors	11	(273)	(1,169)
Net current assets		8,177	4,665
Total assets less current liabilities		122,618	117,823
Creditors: amounts falling due after more than one year			
Bank loan	11	(5,000)	(5,000)
Net assets		**117,618**	**112,823**
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	108,139	103,335
Revenue reserve		4,823	4,832
Equity shareholders' funds		**117,618**	**112,823**
Net asset value per Ordinary share (pence)	14	**245.77**	**235.75**

The financial statements were approved by the Board of Directors and authorised for issue on 15 December 2016 and were signed on its behalf by:

N M Yarrow
Director

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

Statement of Changes in Equity

For the year ended 31 October 2016

	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 2015		2,393	30	2,233	103,335	4,832	112,823
Return on ordinary activities after taxation		–	–	–	4,804	2,862	7,666
Dividends paid	7	–	–	–	–	(2,871)	(2,871)
Balance at 31 October 2016		**2,393**	**30**	**2,233**	**108,139**	**4,823**	**117,618**

For the year ended 31 October 2015

	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 2014		2,393	30	2,233	95,188	4,414	104,258
Return on ordinary activities after taxation		–	–	–	8,147	2,954	11,101
Dividends paid	7	–	–	–	–	(2,536)	(2,536)
Balance at 31 October 2015		**2,393**	**30**	**2,233**	**103,335**	**4,832**	**112,823**

[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.

Statement of Cash Flows

	Notes	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
Operating activities			
Net return ordinary activities before finance costs and taxation		7,790	11,241
Adjustment for:			
Gains on investments		(5,278)	(8,847)
Increase in accrued dividend income		(27)	(53)
Decrease/(increase) in other debtors		4	(15)
Increase/(decrease) in creditors		16	(2)
Net cash flow from operating activities		2,505	2,324
Investing activities			
Purchases of investments		(15,754)	(18,255)
Sales of investments		18,837	22,775
Net cash inflow from investing activities		3,083	4,520
Financing activities			
Interest paid		(124)	(121)
Equity dividends paid	7	(2,871)	(2,536)
Net cash flow used in financing activities		(2,995)	(2,657)
Increase in cash and cash equivalents		**2,593**	**4,187**
Analysis of changes in cash and cash equivalents during the year			
Opening balance		5,529	1,342
Increase in cash above		2,593	4,187
Closing balance		**8,122**	**5,529**

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

Notes to the Financial Statements For the year ended 31 October 2016

1. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice: 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000. The have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is included in the Directors' Report on page 30.

These financial statements are the first since FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland came into effect for the accounting periods beginning on or after 1 January 2015. An assessment of the impact of adopting FRS 102 has been carried out and found that no restatement of balances as at the transition date, 1 November 2014, or comparative figures in the Statement of Financial Position or the Statement of Comprehensive Income is considered necessary. The Company has early adopted 'Amendments to FRS 102 – Fair Value Hierarchy Disclosures', issued by the Financial Reporting Council in March 2016.

(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. Income from underwriting commission is recognised as earned.

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 a 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 Statement of Comprehensive Income 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) Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed at the Statement of Financial Position 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 Statement of Financial Position 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.

Notes to the Financial Statements continued

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.

(f) Nature and purpose of reserves

Called up share capital

The Ordinary share capital on the Statement of Financial Position relates to the number of shares in issue. Only when the shares are cancelled is a transfer made to the capital redemption reserve.

Share premium account

The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising Ordinary shares of 5p.

Capital redemption reserve

The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital.

Capital reserve

Gains and losses on disposal of investments and changes in fair values of investments 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.

Revenue reserve

This reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income. The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

(g) Cash and cash equivalents

Cash and cash equivalents comprises cash at banks.

(h) Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. There are no significant estimates of judgements which impact these financial statements.

2. Income	2016 £'000	2015 £'000
Income from investments		
UK dividend income	2,992	3,125
Overseas dividend income	349	288
Property income distributions	97	85
	3,438	3,498
Other income		
Deposit interest	12	6
Underwriting commission	9	34
	21	40
Total income	**3,459**	**3,538**

3. Management fee	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Management fee	116	350	466	117	350	467
Performance fee	–	27	27	–	245	245
	116	**377**	**493**	**117**	**595**	**712**

The 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'). The sum due to the Manager at the year end was £131,000 (2015 – £116,000).

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 preceding twelve month period. The sum due to the Manager at the year end was £nil (2015 – £nil). Changes to the performance-related fee which apply with effect from 1 November 2016 are disclosed in the Directors' Report on page 28.

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 fee is allocated wholly to capital.

4. Administrative expenses	2016 £'000	2015 £'000
Directors' fees	86	87
Auditor's remuneration – fees payable to the Company's auditor for:		
• audit of the Company's annual accounts	16	16
• the review of the Company's half yearly accounts	5	5
Secretarial fee	101	100
Promotional activities	56	51
Share plan costs	30	29
Registrar's fees	14	13
Advisory fees	40	36
Legal fees	–	5
Other expenses	102	90
	450	**432**

A secretarial fee of £101,000 (2015 – £100,000) was paid to the Manager. The sum due to the Manager at the year end was £25,000 (2015 – £25,000).

Expenses of £56,000 (2015 – £51,000) were paid to the Manager in respect of promotional activities for the Company. The sum due to the Manager at the year end was £18,000 (2015 – £17,000).

All of the expenses above, with the exception of Auditor's remuneration, include irrecoverable VAT where applicable. For Auditor's remuneration this amounted to £4,000 (2015 – £4,000).

Notes to the Financial Statements continued

5. Finance costs	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Bank loan interest	31	93	124	35	105	140

6. Taxation

There is no liability to corporation tax for the year (2015 – £nil).

The corporation tax rate was 20% during the year. For the year ended 31 October 2015 the effective rate of corporation tax was 20.42% (corporation tax rate 21% from 1 November 2014 until 31 March 2015 and then 20% thereafter).

Factors affecting tax charge for the year	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net revenue before taxation	2,862	4,804	7,666	2,954	8,147	11,101
Corporation tax of 20% (2015 – effective rate of 20.42%)	572	961	1,533	603	1,664	2,267
Effects of:						
Non-taxable UK dividend income	(598)	–	(598)	(638)	–	(638)
Non-taxable overseas dividends	(70)	–	(70)	(50)	–	(50)
Gains on investment not taxable	–	(1,055)	(1,055)	–	(1,807)	(1,807)
Expenses not deductible for tax purposes	–	–	–	1	–	1
Excess management expenses not utilised	96	94	190	97	143	240
Income taxable in different periods	–	–	–	(13)	–	(13)
	–	–	–	–	–	–

At the year end, after offset against income taxable on receipt, there is a potential deferred tax asset of £6,222,000 (2015 – £6,032,000) in relation to surplus management expenses. It is unlikely that the Company will generate sufficient taxable profits in future to utilise these amounts and therefore no deferred tax asset has been recognised.

7. Dividends	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2015 – 3.85p (2014 – 3.15p)	1,843	1,508
Interim dividend for 2016 – 2.15p (2015 – 2.15p)	1,029	1,029
Return of unclaimed dividends	(1)	(1)
Dividends paid in the year	2,871	2,536

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 Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,862,000 (2015 – £2,954,000).

	2016 £'000	2015 £'000
Interim dividend for 2016 – 2.15p (2015 – 2.15p)	1,029	1,029
Proposed final dividend for 2016 – 4.00p (2015 – 3.85p)	1,914	1,843
	2,943	2,872

8. Return per Ordinary share	2016 p	2015 p
Revenue return	5.98	6.17
Capital return	10.04	17.02
Total return	16.02	23.19
Weighted average number of Ordinary shares in issue	47,857,317	47,857,317

9. Investments	Listed in UK 2016 £'000	Listed in UK 2015 £'000
Fair value through profit or loss:		
Opening fair value	113,158	107,695
Opening fair value gains on investments held	(31,745)	(30,626)
Opening book cost	81,413	77,069
Purchases at cost	14,842	19,167
Sales – proceeds	(18,837)	(22,551)
Sales – gains on sales	6,765	7,728
Closing book cost	84,183	81,413
Closing fair value gains on investments held	30,258	31,745
Closing fair value	114,441	113,158

Gains on investments	2016 £'000	2015 £'000
Gains on sales of equities	6,765	7,728
Movement in fair value gains on investments held	(1,487)	1,119
	5,278	8,847

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 Statement of Comprehensive Income. The total costs were as follows:

	2016 £'000	2015 £'000
Purchases	72	87
Sales	18	17
	90	104

Notes to the Financial Statements continued

10. Debtors: amounts falling due within one year	2016 £'000	2015 £'000
Net dividends and interest receivable	307	280
Other debtors and prepayments	21	25
	328	305

11. Creditors (a) Amounts falling due within one year – Other creditors	2016 £'000	2015 £'000
Amounts due to brokers	–	912
Management fee	131	116
Sundry creditors	142	141
	273	1,169

(b) Amounts falling due after more than one year – Bank loan

The Company currently has a £5 million revolving facility agreement as well as a three year £5 million term loan facility, both with Scotiabank Europe. At the year end, £5 million was drawn down from the term loan facility at a fixed interest rate of 2.171% until 24 November 2017. The terms of the loan facilities contain covenants that the minimum net assets of the Company are £50 million and the percentage of borrowings against net assets is less than 25%.

12. Called-up share capital	2016 £'000	2015 £'000
Allotted, called-up and fully paid:		
47,857,317 Ordinary shares of 5p each (2015 – same)	2,393	2,393

13. Capital reserve	2016 £'000	2015 £'000
At 1 November	103,335	95,188
Gains on realisation of investments at fair value	6,765	7,728
Movement in fair value gains on investments held	(1,487)	1,119
Management fees	(377)	(595)
Finance costs	(93)	(105)
Currency losses	(4)	–
At 31 October	**108,139**	**103,335**

The capital reserve includes investment holding gains amounting to £30,258,000 (2015 – £31,745,000), as disclosed in note 9.

14. Net asset value per share	2016	2015
Equity shareholders' funds	£117,618,000	£112,823,000
Number of Ordinary shares in issue at year end	47,857,317	47,857,317
Equity shareholders' funds per share	245.77p	235.75p

15. Financial instruments

Risk Management

The Company's objective is to achieve long term growth from a portfolio of smaller companies in the United Kingdom.

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 3 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.

Notes to the Financial Statements continued

The Company has borrowing facilities by way of a £5 million revolving facility agreement as well as a three year £5 million term loan facility, both with Scotiabank Europe. Details of drawn down borrowings as at 31 October 2016 are shown in note 11.

Interest risk profile

The interest rate risk profile of the portfolio of financial assets and liabilities at the Statement of Financial Position date was as follows:

At 31 October 2016	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	–	–	8,122	–
Total assets	–	–	8,122	–
Liabilities				
Bank loans	1.07	2.17	–	(5,000)
Total liabilities	–	–	–	(5,000)

At 31 October 2015	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	–	0.15	5,529	–
Total assets	–	–	5,529	–
Liabilities				
Bank loans	2.07	2.17	–	(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 Statement of Financial Position date was as follows:

At 31 October 2016	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Bank loan	–	(5,000)
Floating rate		
Cash	8,122	–
Total	**8,122**	**(5,000)**

At 31 October 2015	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Bank loan	–	(5,000)
Floating rate		
Cash	5,529	–
Total	**5,529**	**(5,000)**

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the Statement of Financial Position 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 2016 would increase/decrease by £81,000 (2015 – increase/decrease by £55,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances.

The Company does not hold any financial instruments that will have an impact on equity reserves.

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 60, 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.

Notes to the Financial Statements continued

Other price risk sensitivity

If market prices at the Statement of Financial Position 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 2016 would have increased/decreased by £11,444,000 (2015 – £11,316,000). This is based on the Company's equity portfolio at each year end.

In the opinion of the Directors, the above sensitivity analysis is representative of the year as a whole, since the level of exposure has remained fairly constant 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. Borrowing facilities comprise a £5 million revolving facility agreement as well as a three year £5 million term loan facility, both with Scotiabank Europe. At the year end the Company had drawn down borrowings of £5 million (see note 11) and this amount is reviewed on an ongoing basis.

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 facilities, the Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facilities 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 counter party 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 is reviewed periodically by the Manager so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers 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 identified and 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. The Board has set limits of cash that may be held with any one institution.

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

Credit risk exposure

In summary, the maximum exposure to credit risk at 31 October 2016 was considered to be the same as the carrying amount of the financial assets in the Statement of Financial Position.

	2016 £'000	2015 £'000
Non-current assets		
Securities at fair value through profit or loss	114,441	113,158
Current assets		
Trades and other receivables	21	25
Accrued income	307	280
Cash and cash equivalents	8,122	5,529
	122,891	118,992

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.

16. Fair value hierarchy

FRS 102 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 Company has early adopted 'Amendments to FRS 102 – Fair Value Hierarchy Disclosures' issued by the Financial Reporting Council in March 2016. This has not resulted in any reclassifications in levelling and the prior year comparative has been disclosed under the new hierarchy. The fair value hierarchy has the following classifications:

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

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: 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 (2015 – 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 £114,441,000 (2015 – £113,158,000) have therefore been deemed as Level 1.

Financial liabilities in the form of short-term borrowings are held at amortised cost. The fair value is considered to approximate the carrying value and is categorised as Level 2.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during 2016 and 2015.

17. 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 share capital, reserves and retained earnings.

Notes to the Financial Statements continued

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.

18. Related party transactions and transactions with the Manager

Fees payable during the year to the Directors and their interests in shares of the Company are disclosed within the Directors' Remuneration Report on page 34.

The Company has an agreement in place with Aberdeen Fund Managers Limited ("AFML") for the provision of management and administration services, promotional activities and secretarial services. Details of transactions during the year and balances outstanding at the year end are disclosed in notes 3 and 4. Changes to the performance-related fee which apply with effect from 1 November 2016 are disclosed in the Directors' Report on page 28.

Corporate Information

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

The Investment Manager is a subsidiary of Aberdeen Asset Management PLC, whose group companies had approximately £312 billion of assets under management as at 30 September 2016.

View over Edinburgh from Edinburgh Castle

Information about the Investment Manager

Aberdeen Asset Managers Limited

The Company's Investment Manager is Aberdeen Asset Managers Limited, a subsidiary of Aberdeen Asset Management PLC, whose group companies had approximately £312 billion of assets under management as at 30 September 2016. Aberdeen Asset Management PLC manages assets on behalf of a wide range of clients including more than 90 investment trusts and other closed-ended funds, which have combined total assets of approximately £17.9 billion.

Aberdeen Asset Management PLC has its headquarters in Aberdeen with its main investment centres in Bangkok, Budapest, Edinburgh, Hong Kong, Jersey, Kuala Lumpur, London, Paris, Philadelphia, Singapore, Sydney and Tokyo.

Aberdeen Asset Management PLC currently manages over £89 billion of equities globally. As part of this, the Pan-European team oversees £4.3 billion of UK equities and £1.5 billion of European (ex UK) equities.

The Senior Investment Manager

Ed Beal

Ed is an investment manager on the Pan European equities team and joined Edinburgh Fund Managers plc (which was subsequently acquired by Aberdeen Asset Management PLC) in 2000.

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 Investment Manager's investment philosophy is that markets are not always efficient. We 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 typically accounts for the bulk of the activity within the portfolio.

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 a 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.

Aberdeen'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 Investment Manager primarily to check the portfolio is behaving as expected, not as a predictive tool.

Investor Information

AIFMD

The Company has appointed Aberdeen Fund Managers Limited as its alternative investment fund manager and BNP Paribas Securities Service, London Branch as its depositary under the AIFMD. Details of the leverage and risk policies which the Company is required to have in place under AIFMD are published in the Company's PIDD which can be found on its website. The periodic disclosures required to be made by the AIFM under the AIFMD are set out on page 66.

Pre-investment Disclosure Document ("PIDD")

The AIFMD requires Aberdeen Fund Managers Limited, as the alternative investment fund manager of Dunedin Smaller Companies Investment Trust PLC, to make available to investors certain information prior to such investors' investment in the Company. The Company's PIDD is available for viewing on its website.

Website

Further information on the Company can be found on its own dedicated website: dunedinsmaller.co.uk. This allows internet users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports.

Investor Warning: Be alert to share fraud and boiler room scams

Aberdeen Group has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment trust shares, purporting to work for Aberdeen Asset Management or for third party firms. Aberdeen Group has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for Aberdeen Group and any third party making such offers/claims has no link with Aberdeen Group.

Aberdeen Group does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: fca.org.uk/consumers/scams.

Keeping You Informed

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available from the Company's website and the TrustNet website (trustnet.com). Alternatively you can call 0808 500 0040 (free when dialing from a UK landline) for investment trust information.

If you have any questions about your Company, the Manager or performance, please telephone the AAM Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, internet users may email AAM at inv.trusts@aberdeen-asset.com or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc shareholders holding their shares in the Company directly should contact the registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by telephoning on 0371 384 2445. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday. *Calls may be recorded and monitored randomly for security and training purposes.*

Changes of address must be notified to the registrars in writing. Any general enquiries about the Company should be directed to the Company Secretary, Dunedin Smaller Companies Investment Trust PLC, 40 Princes Street, Edinburgh EH2 2BY or by emailing company.secretary@aberdeen-asset.com.

Direct Investment

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

Aberdeen's Investment Plan for Children

Aberdeen runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). 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%) where applicable. 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

Investor Information continued

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.

Aberdeen's Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in the Company 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%) where applicable. 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 £15,240 can be made in the 2016/2017 tax year.

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. Investors have full voting and other rights of share ownership. 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 the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Dividend Tax Allowance

From 6 April 2016, dividend tax credits have been replaced by an annual £5,000 tax-free allowance on dividend income. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Literature Request Service

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

Telephone: 0808 500 4000
Website: invtrusts.co.uk/en/investmenttrusts/literature-library

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
Telephone: 0808 500 0040
(free when dialing from a UK landline)

Terms and conditions for the AAM managed savings products can also be found under the literature section of invtrusts.co.uk.

Online Dealing details

Investor information

There are a number of other ways in which you can buy and hold shares in this investment trust.

Online dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

- AJ Bell You Invest
- Alliance Trust Savings
- Barclays Stockbrokers
- Charles Stanley Direct
- Halifax Share Dealing
- Hargreave Hale
- Hargreaves Lansdown
- Idealing
- Interactive Investor
- Selftrade Equiniti
- The Share Centre
- Stocktrade
- TD Direct

Discretionary private client stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit the Wealth Management Association at: thewma.co.uk.

Financial advisers

To find an adviser on investment trusts, visit: unbiased.co.uk.

Regulation of stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:
Tel: 0800 111 6768 or at fca.org.uk/firms/systems-reporting/register/search
Email: register@fca.org.uk

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking exposure to smaller companies in the United Kingdom, 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, and intends to continue to do so for the foreseeable future, in order that its shares can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments ("NMPIs").

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

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.

The information on pages 61 to 63 has 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

Aberdeen, Aberdeen Group or AAM	Aberdeen Asset Management PLC group of companies.
AIC	The Association of Investment Companies.
AIFMD or the Directive	The Alternative Investment Fund Managers Directive - The AIFMD is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF.
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.
Benchmark	This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the FTSE SmallCap Index (excluding Investment Companies). The index averages the performance of a defined selection of listed companies over specific time periods.
Closed-End Fund	A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.
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.
FCA	Financial Conduct Authority.
Investment Manager	Aberdeen Asset Managers Limited is a wholly owned subsidiary of Aberdeen Asset Management PLC and acts as the Company's investment manager. It is authorised and regulated by the Financial Conduct Authority.
Investment Trust	A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.
Leverage	For the purposes of the Alternative Investment Fund Managers Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its Net Asset Value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.
Manager or AIFM or AFML	Aberdeen Fund Managers Limited is a wholly owned subsidiary of Aberdeen Asset Management PLC and acts as the alternative investment fund manager for the Company. It is authorised and regulated by the Financial Conduct Authority.
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.
Net Gearing/Cash	Net gearing/cash is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage.
Ongoing Charges	Ratio of expenses as percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.
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, loan 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 as per the Statement of Financial Position less current liabilities (before deducting Prior Charges as defined above).
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned, ie half yearly.

General

Your Company's Share Capital History

Issued Share Capital at 31 October 2016

47,857,317	Ordinary 5p shares

Capital History

7 May 1997	£15,000,000 raised via a 25 year 8.375% Debenture issue
Year ended 31 October 2000	100,000 Ordinary shares purchased for cancellation
Year ended 31 October 2002	150,000 Ordinary shares purchased for cancellation
Year ended 31 October 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 at 740.49p per share and cancelled
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 Ordinary shares
Year ended 31 October 2007	7,642,556 Ordinary shares purchased for cancellation
28 February 2008	2,752 Subscription shares converted into 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 Ordinary shares
28 February 2011	1,091 Subscription shares converted into Ordinary shares
28 February 2012	1,874 Subscription shares converted into Ordinary shares
14 March 2012	Each outstanding Subscription share was converted automatically into one deferred share and immediately redeemed and treated as cancelled

AIFMD Disclosures (unaudited)

Aberdeen Fund Managers Limited and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ("PIDD") which may be found on the Company's website. There have been no material changes to the disclosures contained within the PIDD since its most recent update in December 2015.

The periodic disclosures as required under the AIFMD to investors are made below:

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report on pages 6 to 19, note 15 to the financial statements and the PIDD, together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by AFML;
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the Company's AIFM remuneration policy is available from the Company's Secretary, Aberdeen Asset Management PLC on request and the remuneration disclosures in respect of the AIFM's relevant reporting period for the year ended 30 September 2016 will be made available on the Company's website.

Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 October 2016	0.97:1	1.04:1

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There have been no changes to the circumstances in which the Company may be required to post assets as collateral and no guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place; the maximum level of leverage which AFML may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

The information on this page has 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 Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Notice of Annual General Meeting

Notice is hereby given that the eighty-ninth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Discovery Point, Discovery Quay, Dundee DD1 4XA on Wednesday 1 February 2017 at 12 noon for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the Reports of the Directors and auditor and the financial statements for the year ended 31 October 2016.
2. To receive and adopt the Directors' Remuneration Report (excluding the Directors' Remuneration Policy).
3. To receive and adopt the Directors' Remuneration Policy.
4. To approve a final dividend of 4.00p per Ordinary share.
5. To re-elect Mr James Barnes as a Director of the Company.
6. To re-elect Mr Norman Yarrow as a Director of the Company.
7. To re-appoint KPMG LLP as auditor of the Company.
8. To authorise the Directors to determine the remuneration of the auditor for the year to 31 October 2017.
9. That, with effect from the date 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 or, if less, the number representing 33% of the issued share capital of the Company 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 2018, 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.

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

10. That, subject to and conditional upon the passing of resolution 11 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 or, if less, the number representing 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 11 set out below; and
    - (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2018, (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.
11. That, subject to the passing of resolution number 9 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 9 above, or by way of a sale of treasury shares, in

Notice of Annual General Meeting *continued*

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 or, if less, the number representing 5% of the nominal value of the issued share capital of the Company as at the date of the passing of this resolution; 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 2018, 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.

12. 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 number of Ordinary shares hereby authorised to be purchased shall be an aggregate of 7,173,811 Ordinary shares or, if less, the number representing 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 2018 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.

By order of the Board
For **Aberdeen Asset Management PLC**
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
15 December 2016

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, Freepost RTHJ-CLLL-KBKU, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 8LU 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 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 6.30 p.m. on 30 January 2017 or if this meeting is adjourned, 6.30 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 15 December 2016 (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 15 December 2016 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.

Notice of Annual General Meeting continued

(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, 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.

Contact Addresses

Directors
N M Yarrow (Chairman)
T J K Barnes
A Henderson
C M D Thomson

Registered Office and Company Secretary
Aberdeen Asset Management PLC
40 Princes Street
Edinburgh EH2 2BY

Alternative Investment Fund Manager
Aberdeen Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH

Investment Manager
Aberdeen Asset Managers Limited
40 Princes Street
Edinburgh EH2 2BY

Customer Services Department and Aberdeen Children's Plan, Share Plan and ISA enquiries
Aberdeen Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB

Freephone: 0808 500 0040
(open Monday to Friday, 9.00 a.m. – 5.00 p.m.)
Email: inv.trusts@aberdeen-asset.com

Company Registration Number
SC014692 (Scotland)

Website
dunedinsmaller.co.uk

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

Shareholder Helpline: 0371 384 2445*

(*Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday excluding bank holidays. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

Overseas helpline number: +44 (0)121 415 7047

Depositary
BNP Paribas Securities Services, London Branch
10 Harewood Avenue
London NW1 6AA

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

Auditor
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

United States Internal Revenue Service FATCA Registration Number ("GIIN")
PBR0Z7.99999.SL.826