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 2017

Broughty Castle, Dundee

Contents

Visit our Website

To find out 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 For the year ended 31 October 2017

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, Aberdeen Standard Investments (the investment arm of the Standard Life Aberdeen plc group of companies).

Net asset value total return[A]

+32.8%

2016 +7.0%

Share price total return[A]

+28.8%

2016 +4.1%

FTSE SmallCap Index (ex Investment Companies) total return

+21.9%

2016 +6.7%

Revenue return per share

5.42p

2016 5.98p

Dividends per share[B]

6.39p

2016 6.15p

Total assets[C] (million)

£157.6

2016 £122.6

[A] Alternative Performance Measure (see note 20 on page 62 and Glossary on page 68 for more information).
[B] Dividends declared for the year in which they were earned.
[C] As defined on page 68.

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") which merged with Standard Life plc on 14 August 2017 to form Standard Life Aberdeen plc.

Financial Calendar

8 February 2018	Annual General Meeting in Edinburgh (12 noon)
16 February 2018	Final dividend payable for year ended 31 October 2017
June 2018	Announcement of Half-Yearly Financial Report for six months ending 30 April 2018
July 2018	Interim dividend payable for year ending 31 October 2018
December 2018	Announcement of Annual Financial Report for the year ending 31 October 2018

Chairman's Statement

N M Yarrow
Chairman

Overview

I am pleased to report a year of strong absolute and relative returns for your Company. The net asset value ("NAV") total return for the year ended 31 October 2017 was 32.8%, a significant outperformance of the benchmark, the FTSE SmallCap Index (ex Investment Companies), which delivered a total return of 21.9%. The share price total return for the year was 28.8%. The discount of the share price to the NAV per share at the year-end was 20.7%, which compared to 17.8% at the beginning of the year. The Board monitors the discount level on an ongoing basis. While the discount at the year end was disappointing, I am glad to report that it has narrowed to 15% at the time of writing.

The Company has continued to benefit from many of the factors highlighted in the Half Yearly Report. Notwithstanding the uncertainties caused by the Brexit vote and the triggering of Article 50 in March, markets rose as a result of increasing global growth and rising investor appetite for risk. In addition, the share prices of those companies with earnings derived from overseas benefited from the boost to corporate profitability caused by the depreciation in Sterling following the Brexit vote in 2016. Smaller companies have also benefited from a recognition that they had been trading at a valuation discount to their larger counterparts. This gap narrowed over the year as the earnings boost that benefited some larger companies that are exposed to recovering commodity prices worked its way through the system to smaller companies.

The positive performance was broadly spread across the portfolio. Areas deserving of special mention include the very strong performance from power converter business XP Power, and specialist electronic design and manufacturer Acal. The Household Goods sector was another area that delivered a material contribution to performance and it is pleasing to note that recent introductions, Cairn Homes and Victoria, both performed particularly strongly. Your Investment Manager seeks to invest for the long term and Dechra Pharmaceuticals is a company that has been in the portfolio for 14 years. It has featured as a significant contributor to performance in previous periods and has done so again this year. Another more recent introduction to the portfolio is litigation finance company Burford Capital. It has had an exceptional year, combining a material acquisition with strong underlying performance and outstanding performance from one asset in particular.

Real Estate is an area of the market that has suffered in the post-Brexit environment. However, the portfolio's exposure to this segment of the market is largely through companies that, whilst cyclical, are less exposed to office and retail markets which have been most severely affected. Consequently, the Company has benefited from being both underweight the sector relative to the benchmark and from its holdings performing more strongly than the benchmark.

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

The outperformance during the year resulted in the payment of a performance fee to the Manager, details of which are contained in note 4 to the financial statements.

Earnings and Dividends

Revenue earnings per share for the year were 5.42p, compared to 5.98p for the previous year. The primary reasons for this decline were dividend cuts announced by Interserve and Fenner, and the non-recurrence of the special dividend that was paid by Stock Spirits in the prior year.

An interim dividend of 2.15p per share was paid on 28 July 2017. The Board proposes a final dividend of 4.24p per share (2016 – 4.00p) which, subject to approval at the Annual General Meeting, will be paid on 16 February 2018 to shareholders on the register on 19 January 2018.

When combined with the interim dividend, the total dividend for the year will amount to 6.39p (2016 – 6.15p), an increase of 3.9% for the year and in line with the rate of inflation. This is equivalent to a yield of 2.5% based on the year end share price of 253.0p.

As stated in previous Reports, 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 5.11p (2016 – 6.08p), representing 80.0% of the current annual dividend cost.

In addition to the revenue reserve, the Company also has the ability to fund dividend payments from its realised capital reserves which amounted to £80.7 million at the year-end.

Share Buy Backs

The Company did not purchase any of its own Ordinary shares during the period under review. As stated above, the discount at the year-end was 20.7%. The Directors monitor the Company's discount on an ongoing basis, compared to the Company's peer group and also the investment trust sector as a whole, 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 finished the year with net debt of £1.3 million representing a de minimis level of gearing. At the year end it had a £5 million revolving credit facility as well as a three year term loan facility of £5 million which was more than offset by cash balances held.

The loan facilities matured on 24 November 2017 and the Company has replaced them with new facility agreements entered into with Scotiabank Europe PLC (the "New Facilities"). The New Facilities are for a five year period to 24 November 2022 and, as with the previous facilities, comprise a £5 million fixed rate term loan and a £5 million revolving credit facility. The £5 million term loan has been fully drawn down at an all-in interest rate of 2.78% per annum. The revolving credit facility is currently undrawn but the Investment Manager will look to invest this as and when it considers it appropriate.

Board Composition

Having served as a Director since 1998 I will retire from the Board at the Annual General Meeting in 2019. The Board will seek to recruit two new independent Directors over the next two years.

Manager

The Board notes the recent completion of the merger between Aberdeen Asset Management PLC ("Aberdeen"), which is the parent company of the Manager, and Standard Life PLC whereby Aberdeen has become the wholly owned subsidiary of Standard Life Aberdeen plc. The Board will continue to monitor developments closely to ensure that satisfactory arrangements are in place for the continued effective management of the Company.

Annual General Meeting

The Annual General Meeting will be held at the offices of Aberdeen Asset Management PLC, 40 Princes Street, Edinburgh EH2 2BY on Thursday 8 February 2018 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 and representatives from the management team 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 71 to 74.

Outlook

The outlook for the UK economy is likely to continue to be impacted by the continuing uncertainties around the outcome of the Brexit negotiations. With the recent downgrading of growth forecasts and the expected reduction in inflation as the impact of the depreciation of Sterling works its way through the system, the prospects for further interest rate increases in the near term seem limited. The outlook for the global economy, however, remains reasonably positive and it appears likely that the major central banks will seek to tighten monetary conditions and reduce either the rate or absolute size of their stimulus packages.

With increasing earnings derived from abroad, many smaller companies in the UK are protected from the domestic economic uncertainties. However, following a strong period of performance for equity markets, valuations, particularly those of good quality companies, remain elevated. Although valuations are not stretched by historic standards, this could justify a degree of caution in the event of any form of economic disappointment.

Chairman's Statement continued

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

N M Yarrow
Chairman
21 December 2017

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 90 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 qualifies as an investment trust for tax purposes. The Directors do not envisage any change in this activity in the foreseeable future.

Investment Objective

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Investment Policy

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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 64. A comprehensive analysis of the Company's portfolio is disclosed on pages 23 to 25 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 42 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:

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 ten years are set out on page 15.
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, and a graph showing performance against the benchmark index over the past five years, are set out on pages 14 and 15. 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 monitors the Company's net revenue return. The revenue returns per Ordinary share for each of the past ten years are set out on page 15.
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, and a graph showing performance against the benchmark index over the past five years, are set out on pages 14 and 15.
Discount/premium to NAV	The discount/premium of the share price relative to the NAV per share is closely monitored by the Board. The discount at the year end is disclosed on page 13 and a graph showing the discount/premium for the past five years is shown on page 15.
Ongoing charges	The Board monitors the Company's operating costs carefully. Ongoing charges for the year and the previous year are disclosed on page 13.

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.

Overview of Strategy continued

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 16 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 70.
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 38 and 39.

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 2017, 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 9 and 10 and the steps taken to mitigate these risks.

Overview of Strategy continued

- The ongoing relevance of the Company's investment objective.
- The fact that the Company's portfolio is invested in listed securities.
- The level of gearing. This is closely monitored and the financial covenants attached to the Company's borrowings provide for significant headroom.
- The availability of loan facilities. Borrowings of £10 million are committed to the Company until 24 November 2022.

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. In considering these matters the Board has reviewed the impact of stress testing on the portfolio, including the effects of any substantial future fall in markets.

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.

Outlook

The Board's view on the general outlook for the Company can be found in the Chairman's Statement on pages 5 and 6 whilst the Investment Manager's views on the outlook for the portfolio are included on pages 20 and 21.

On behalf of the Board
N M Yarrow
Chairman
21 December 2017

Norman Yarrow

Results

Financial Highlights

	31 October 2017	31 October 2016	% change
Total assets less current liabilities (before deducting bank loan)	£157,630,000	£122,618,000	28.6
Equity shareholders' funds (Net Assets)	£152,630,000	£117,618,000	29.8
Market capitalisation	£121,079,000	£96,672,000	25.2
Share price (mid market)	253.00p	202.00p	25.2
Net Asset Value per share	318.93p	245.77p	29.8
FTSE SmallCap Index (ex Investment Companies) (capital gains basis)	5,128.95	4,325.05	18.6
Discount (see definition in Glossary on page 68)	20.7%	17.8%	
Gearing			
Net gearing/(cash)[A]	0.89%	(2.65)%	
Dividends and earnings			
Total return per share[B]	79.31p	16.02p	
Revenue return per share	5.42p	5.98p	(9.4)
Dividends per share[C]	6.39p	6.15p	3.9
Dividend cover (including proposed final dividend)	0.85	0.97	
Revenue reserves[D]	£4,473,000	£4,823,000	
Operating costs			
Ongoing charges (excluding performance fee)[E]	0.77%	0.81%	
Ongoing charges (including performance fee)	1.36%	0.83%	

[A] Calculated in accordance with AIC guidance "Gearing Disclosures post RDR" (see definition of Gearing on page 68).
[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 8 on page 54).
[D] The revenue reserve figure does not take account of the proposed final dividend amounting to £2,029,000 (2016 – £1,941,000).
[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.

Results continued

Performance

	1 year % return	3 year % return	5 year % return
Capital return			
Share price	+25.2	+39.8	+52.4
Net Asset Value per share	+29.8	+46.4	+89.6
FTSE SmallCap Index (ex Investment Companies)	+18.6	+35.3	+90.1
Total return (Capital return plus dividends paid)			
Share price	+28.8	+52.5	+75.0
Net Asset Value per share	+32.8	+57.4	+114.1
FTSE SmallCap Index (ex Investment Companies)	+21.9	+47.1	+117.2

Dividends

	Rate per share	xd date	Record date	Payment date
Proposed final dividend 2017	4.24p	18 January 2018	19 January 2018	16 February 2018
Interim dividend 2017	2.15p	6 July 2017	7 July 2017	28 July 2017
2017	6.39p			
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			

Performance

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

Five years to 31 October 2017 (rebased to 100 at 31/10/12)

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

Five years to 31 October 2017

Ten Year Financial Record

Year to 31 October	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue available for Ordinary dividends (£'000)	2,517	1,525	1,939	2,556[A]	2,206	2,599	2,555	2,954	2,862	2,592
Per share (p)										
Net revenue return	5.2	3.2	4.1	5.3[A]	4.6	5.4	5.3	6.2	6.0	5.4
Net dividends paid/proposed	4.50	4.50	4.60	4.85	5.00	5.15	5.25	6.00	6.15	6.39
Revenue reserve after payment of final dividend	7.43	6.15	5.60	6.09	5.70	5.98	6.07	6.25	6.08	5.11
Net asset value	90.1	117.1	154.2	143.0	168.2	226.0	217.9	235.8	245.8	318.9
Total return	(73.6)	31.4	41.7	(6.5)	30.1	62.8	(2.9)	23.2	16.0	79.3
Shareholders' funds (£'000)	43,170	56,020	73,809	68,446	80,499	108,153	104,258	112,823	117,618	152,630

[A] Includes interest on VAT recovered.

Investment Manager's Review

Market Review

Smaller companies had a very good year for the period ended 31 October 2017, posting gains that were in excess of twice those registered by their larger counterparts and which were very attractive in absolute terms. The year got off to a slightly weaker start but this was followed by steady progression.

The year began with Donald Trump's unexpected victory in the US Presidential elections, which brought with it an expectation of rising growth and inflation and hence a belief that interest rates would be increased further. This was a significant electoral shock and, coming on the back of the Brexit vote, it raised concerns among investors that there may be further populist disruptions throughout 2017. As it turned out these fears were largely misplaced. A number of European elections, most notably the French Presidential one, passed without major upset.

In the UK, companies were seeking clarity as to what Brexit was likely to mean. Although none was forthcoming, it was positive to see that, despite such uncertainty, the economy was performing rather more strongly than had been feared by some. Indeed, growth expectations for 2016 were increased during the autumn.

Corporate profitability and share prices were boosted by the continuing weakness of Sterling, providing a fillip to markets that might otherwise have been rather more concerned. This effect was evident amongst smaller companies despite much of the associated commentary focussing on the benefits that were accruing to the largest businesses. A corollary of this was that inflation began to pick up.

Markets were very strong as we approached the end of 2016 and it was notable that smaller companies were broadly keeping pace despite their lower exposure to resource stocks which performed well as commodity prices rose on the back of Chinese demand.

Entering the new year, as we considered what 2017 might hold, one thought that struck us was that, despite the wide-ranging geopolitical uncertainty, markets had been operating in a state of near perpetual uncertainty for almost a decade. Changes of government, bank bailouts and even national recapitalisations were not new. A focus on investing in good quality companies that could weather these changes had stood us well and we believed then, and now, that it would continue to do so.

Global growth looked set to pick up during 2017. Drivers of this included the strengthening labour markets in the US, UK and Europe and the improvements in the Brazilian and Russian economies. Meanwhile, wage growth and a higher oil price were pushing inflation upwards. Companies were beginning to talk of Europe being the region where they were performing most strongly and tapering began to creep into investors' thoughts.

Brexit was to the fore during the spring, with the introduction of the Brexit Bill and the triggering of Article 50. In reality this told us nothing and companies were unable to say much of significance regarding how they were planning for something that was accompanied by such uncertainty.

In March, the Federal Reserve increased US interest rates by 0.25% and markets took this in their stride. In the UK, inflation exceeded 3%, indeed it would reach 3.7% by early summer. There was, though, a hope that it would moderate once the impact of currency weakness annualised in the Autumn. Although the UK economy continued to outperform expectations, some caution was warranted because it was being driven by consumption rather than investment. This weak level of investment was a clear manifestation of a general lack of corporate confidence.

The decision by Theresa May to call a snap general election in June was intended to bring some certainty to the European negotiations. The result failed to deliver such clarity and indeed there was not even agreement as to whether it increased or decreased the likelihood of a so called hard or soft Brexit. Markets reacted quite calmly despite the clearly increased risks and equities were again boosted by a weakening of Sterling.

Companies reported first quarter trading statements that were generally positive and in line with, or even ahead of, expectations. Growth was broadly spread with most regions apart from the UK itself performing satisfactorily. Indeed there was evidence that the growth engines of China and the US were actually doing better than the official data suggested. In Europe, another milestone was reached as Italy recapitalised two of its most troubled banks without causing further disruption. In the UK the prognosis was less positive as expectations for future expansion moved firmly into downgrade territory.

By June, the Governor of the Bank of England, Mark Carney, had begun to signal that, despite concerns about pressures on the consumer, the timing of an increase in domestic interest rates was moving closer and, by the early autumn, the focus was clearly on the impact of rising inflation and falling unemployment. A change in policy was imminent.

In many ways, the year ended much as it started: widespread uncertainty as tensions rose between the US and North Korea, the Catalonians tried to secede from Spain, the UK Government flirted with collapse, and political interference in corporate ownership was touted by both the main political parties. But investors continued to focus on the facts, global growth was sound, corporate profitability was increasing and, despite the fact that valuations were some way from being cheap, there were few alternatives to equities for those who wanted a real return.

Portfolio Review

Key contributors to performance during the year included; Burford Capital, Dechra Pharmaceuticals, Smart Metering Systems, XP Power and Robert Walters.

Burford, Dechra and Smart Metering Systems were all significant drivers of performance in the prior financial year as well. **Burford Capital** has benefited from partial realisations of an asset it holds in the litigation that is ongoing between the Argentinian Government and the prior owners of the nationalised Repsol business. These transactions have indicated that Burford is likely to generate gains on this investment of many multiples of book value.

Dechra Pharmaceuticals has continued to successfully execute its strategy of taking a broader range of both companion and food producing animals' medicines into an increasing number of geographies and to complement this with acquisitions that bring new products and capabilities to add to their portfolio.

Smart Metering Systems is the largest independent installer and owner of smart meters for the domestic markets. This programme is gaining pace and the company has been very successful in winning new contracts which will provide it with a long term and inflation linked portfolio of cash flows.

XP Power have invested significantly in developing a suite of new product families in their core power convertor markets. These products typically operate at higher power levels and with higher levels of efficiency than the previous generations. The company has had considerable success in winning new design approvals, the mission critical nature of the convertors alongside the fact that they are designed in by the group's customers mean that these wins will provide them with long term and persistent revenues. The company has a strong balance sheet and is well positioned to make acquisitions that move them into adjacent markets.

Robert Walters is a recruitment consultancy. They have a very strong franchise in Asia and have therefore been benefitting from the growth in employment in many emerging markets. Additionally they have maintained their presence in European markets throughout the financial crisis. With these markets now recovering, often strongly, the company is reaping the rewards of its prior investment. Lastly, they have developed an outsourced human resource solution called Resource Solutions. They are the only meaningful operator in this market and have been successfully winning a range of blue chip clients.

Among the investments that detracted from performance were; Interserve, Dignity and Ultra Electronics.

Interserve is covered in more detail below.

Dignity are the UK's leading provider of funeral and cremation services. The company's share price has suffered as investors have become concerned that they are losing market share and the impact this may have on their strategy of premium pricing. However, we can think of no other business that has such certainty of demand. In addition this is an industry where word of mouth matters more than elsewhere. In that regard we are comforted that the business has maintained its commitment to the highest levels of service and we believe that there is a demand for these that supports a higher price point than that offered by some of the competition. Lastly, we note data from the Office for National Statistics that suggests that the death rate will gradually increase over time. So whilst the company may lose some share it will be in the context of a larger market.

Ultra Electronics is a defence company. The business has had a difficult few years, in common with many of its peers. Markets have been tough as the Ministry of Defence and, more importantly, the US Department of Defense have curtailed spending. Consequently the business has failed to deliver any organic growth for some time. This is understandable but it has coincided with overly optimistic guidance from the company which has meant that the eventual outcome has been frequent disappointment for investors. Whilst there is no suggestion that the company faces any of the more substantial structural issues that have proven so damaging to some other businesses in the industry, there is no doubt that investor patience has been tested to the limit and scepticism now prevails. Since the year end, the company has announced that it has parted ways with its CEO. We believe that it still has highly regarded products in its niche markets and that the US markets at least have recovered to be a more favourably environment.

Portfolio Activity

We introduced three new holdings during the year.

Victoria is a manufacturer of soft and hard flooring with operations in the UK and Australia.

The industry has some interesting and attractive characteristics. It is highly fragmented, with Victoria the market leader in the UK holding less than 10% share, and number two in Australia with 15%. The company sells largely to independent retailers, which results in very high brand loyalty and hence pricing power. As such, during periods of raw material volatility, Victoria has little difficulty in passing on prices. Because its product is shipped to order,

Investment Manager's Review continued

the retailer will benefit from a favourable working capital profile as a result of the deposit they will have secured from the consumer. This cash flows through the supply chain and consequently Victoria have a favourable working capital profile, with a lower level of creditors than would normally be seen at a manufacturer.

The business has been growing through acquisition. As vendors seek an exit, generally through either retirement or a requirement for capital to grow their business, they have few options other than Victoria. Victoria only acquires well-invested assets and will seek to retain the vendor within the business if possible. This allows them to grow their business but to pay relatively lowly valuations. The management are very focussed on return on capital and a minimum of 15% is required. Sales synergies are few, but there are production efficiencies and the opportunity to rebrand acquired products across the existing brand portfolio.

The market is less cyclical than might be thought because of the replacement nature of the product and, crucially, the strength of Victoria's brands and service levels. This has allowed them to take share and continue to grow even when the market itself has struggled.

A buy and build strategy is sensible because there are only three significant carpet markets globally with the largest being the US which is dominated by two behemoths. So whilst acquisitions bring Victoria manufacturing and distribution opportunities they also deliver scale that at some point may be attractive to the larger consolidators in the industry. In the meantime, the favourable working capital dynamics result in a company that generates significant amounts of cash that will initially be used to fund further growth but will eventually be available to reward shareholders.

Subsequent to the year end, Victoria has made a sizeable acquisition in the Spanish ceramic tile market. This will provide them with an additional and meaningful market for growth.

Patisserie Holdings own and operate a number of casual dining brands. The concept revolves around the sale of high quality but artisanal cakes and patisserie to the eat-in and takeaway markets. Casual dining continues to experience structural growth in the UK. The company has a rigid focus on returns rather than store numbers. The products are viewed as a treat by consumers and sales are particularly strong amongst older customers; the 'grey pound' being a market with more resilience than many consumer-exposed industries and also one that is underserved in the casual dining space. The business is vertically integrated which allows them to retain control of the quality of their produce. The management are very experienced and the Chairman, Luke Johnson, who founded the company, ran and sold Pizza Express, and Paul May, the CEO, together own 44% of the company which gives us confidence that they will retain their focus on returns. As and when the brand reaches maturity it will be highly cash generative, the proceeds of which could be returned to investors or used to fund additional brands.

Gresham Technologies is a software company which has built a platform technology called Clareti. Financial institutions typically have to standardise transaction data into the correct format before inputting it onto the SWIFT system. This requires a lot of manual in-house IT work which in turn creates additional cost and, more importantly, adds an increased risk of human error. Regulators around the world are pushing financial institutions to have more robust reconciliation and reporting systems. The Clareti platform is agnostic with regards to the asset class or type of transaction involved and, as such, is well suited to serve the niche but still highly valuable markets that relate to non-standard trades. The company has won accounts with Tier 1 banks in Europe, Australia and, importantly, the US. These provide vital reference sites as they seek to drive sales of their software. Whilst nothing is certain, our expectation is that two of the three most significant hurdles to success have been overcome. Namely, they have successfully deployed their research and development capital to produce a product that works and that solves an existing problem, and they have sold it to a range of serious reference customers. We are hopeful that this will be followed by a material acceleration in sales wins.

We exited five holdings during the year.

Exova is a specialist testing company that we had first invested in during 2015 shortly after its Initial Public Offering. Trading had been tough for some time, especially in its oil and gas exposed operations, though we were content to look through this and focus on an anticipated recovery and future growth. However, the business was bid for by its peer, Element Materials. We engaged repeatedly with the company as we sought to maximise the value we would receive for a company that we had hoped to be invested in for the long term. In the end, the majority shareholder was content to accept the price offered by Element and we had little choice but to recognise that the transaction would proceed.

Berendsen is a European provider of workwear and linen for the hospitality industry and facilities services. The UK business had suffered from under-investment but a sound plan was being enacted by the recently appointed CEO that looked likely to yield a return to growth and solid returns on investment. The long term prospects for the business were recognised by other industry participants and the company was bid for by French competitor Elis. We viewed the bid as opportunistic and believed that it undervalued the business. We engaged with the board and indicated that we would be happy to support them as they executed their stated strategy. Alternatively, if they felt that a sale was the right thing to do then we would require a better price. Ultimately, Elis returned with an improved offer comprising both a higher price and a larger proportion being paid in cash.

Enquest is a North Sea based oil and gas producer. The company was hit very hard by the decline in the oil price which came at a particularly unfortunate time, coinciding with an extensive programme of capital expenditure and just prior to an expected increase in production that would have provided cash flow to service the cost base. The business conducted a rescue rights issue to buy themselves some breathing space as they sought to bring their recently developed Kraken oil field on stream. We participated in the fundraising alongside the debt holders who also granted them more favourable terms. Whilst this was successful in easing the immediate pressures, it still left a business whose fortunes were dependent on two factors. Firstly the oil price probably needed to be sustainably above $60 for there to be long term value for shareholders and, secondly, they needed to execute perfectly with respect to a ramp-up of output from their fields. Our experience is that the nature of this industry means that perfect execution is unusual. We therefore took the decision to exit the holding.

Huntsworth is an international provider of PR services. The company has been struggling for some time, resulting in a change of Chairman, CEO and Finance Director. This brought about a new strategy with a much greater focus on costs. As this improved performance was increasingly recognised by the market the share price responded strongly. Importantly, this was accompanied by much improved liquidity in the shares of this small company. We took this opportunity to exit the position.

Interserve is a construction and support services company with operations in the UK and the Middle East. They entered into a series of Energy for Waste construction contracts that lay outwith their traditional areas of competency. A confluence of events that included their key subcontractor going bankrupt and a very demanding client led to them recognising very significant losses on these projects. Arguably this situation was manageable, however when their core construction and support services businesses also turned down it became clear that their balance sheet was unacceptably strained and that the strategic options available to them were severely constrained. In light of this we took the decision to sell the holding, which completed after the year end.

Other than the placing conducted by Enquest referred to above, four of our holdings conducted equity raises during the year to help grow their businesses.

We participated in a fundraising conducted by life assurer **Chesnara** to facilitate their acquisition of Legal & General's Dutch business. This was in line with our expectations of their strategy and should allow them to leverage the platform they acquired with the earlier Waard acquisition.

We took part in a placing conducted by **Acal**, a designer, manufacturer and distributor of specialist electronic components, to help fund their acquisition of Variohm, a designer and manufacturer of switches and sensors. We were happy to support them with this acquisition as we believe that they have a good opportunity to consolidate a fragmented European market. The scale this will bring will be supportive for margins and we believe that it is right that we are prepared to provide equity to help our investments grow where the strategy makes sense to us.

We also participated in a placing conducted by **Assura**, a company that develops and owns facilities for general practitioners. The company is seeing increasing opportunities to both purchase and develop such facilities. This fundraising will allow them to accelerate the process of building up a portfolio of these assets which provide attractive yields, with growth in rents that are to all intents and purposes government-backed. It will also allow them to retain a suitably conservative balance sheet.

Lastly, we participated in the placing conducted by **Ultra Electronics**, a niche supplier to the aerospace and defence markets. The company raised equity to help fund its acquisition of Sparton Corporation. Ultra has a joint venture with Sparton for the production of sonobuoys for the US market. The deal will strengthen the company in an area of core competency, move them closer to an important customer and increase their exposure to an area of defence expenditure that is well set for long term growth.

Although not a placing to fund growth we supported **Euromoney** when their majority shareholder DMGT looked to sell its stake down to less than 50%. We believe that Euromoney is a high quality business capable of delivering long term growth and above average margins and returns. Whilst we have no complaints with DMGT's behaviour during their time as a majority shareholder, we believe that the reduction in their stake will give Euromoney greater strategic freedom in the future.

Investment Manager's Review continued

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 team. 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 board composition, an area where we have again 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.

Our endeavours relating to corporate governance are not solely limited to interactions with companies. For instance, we provided a submission to the UK Business Select Committee's corporate governance inquiry.

Outlook

Prospects for the UK may be uncertain but the outlook for the global economy remains reasonably positive. Global growth is running in the region of 3.6% and is expected to strengthen marginally in 2018. In the US, the recovery is continuing, leading to an expectation that interest rates will rise again and that the Federal Reserve may begin to reverse some of the stimulus that it has been deploying. Indeed, the underlying data suggests that both the US and Chinese economies are displaying levels of economic activity consistent with a higher level of growth than that indicated by the current readings for Gross Domestic Product.

The US economy is performing strongly, as illustrated by expectations for a number of further interest rate increases in 2018. However, the political turmoil that surrounds the Trump Administration is raising the risk profile and the need to further extend the debt ceiling could prove problematic.

The Eurozone is increasingly healthy with growth running at its highest level since the start of the financial crisis. The European Central Bank has announced that it will begin tapering, by reducing its asset purchases to €30 billion per month in January. The region has come through a number of potentially damaging elections with its prospects intact and, as such, political risk has given the appearance of reducing over the course of the year, though at the time of writing, failure of the German coalition talks have raised the possibility that Angela Merkel's position will be further weakened.

In aggregate, emerging markets appear well positioned as they benefit from a synchronised increase in global growth. The Chinese economy has grown strongly during 2017 and, although there may be some efforts to curb credit growth, the recent 19th Party Congress suggested that stability and, hence, economic growth remain the priority.

In the domestic economy, inflation has reached 3% and the Bank of England raised interest rates for the first time in seven years. It was notable that the committee remained focussed on the risks to the economy and indicated that further increases were some way off. It is expected that, as the impact of the depreciation of Sterling works its way through the system, so the currency-induced inflationary pressures will begin to ease. The recent autumn budget brought with it a disappointing reduction in growth expectations with the economy now expected to expand by just 1.4% per annum over the next five years. That said, forecasting is implicitly imprecise and the potential ramifications of Brexit, both positive and negative, will almost certainly mean further revisions are necessary. In the meantime, the Chancellor's statement contained some supportive measures, with housing and infrastructure grabbing the headlines. In the absence of material interest rate increases, which do look unlikely from here, one might expect these measures to be supportive of growth even if the consumer will suffer a decline in real incomes until at least the end of 2018.

It is worth remembering that smaller companies are not just a proxy for the UK economy. In aggregate, this part of the market has become increasingly internationalised over the last decade. Although they may lack the breadth of overseas exposure that characterises their larger counterparts, smaller companies do benefit from an increasingly globalised earnings stream. When we consider the portfolio, we can see that it is overweight companies and sectors with a greater level of overseas exposure. Examples include the investments in the Biotechnology & Pharmaceuticals sector, where international research and development budgets, the rising levels of protein consumption in developed and emerging markets and the growth of companion animal care in the US are some of the key drivers. Similarly, when we consider some of the more cyclical industrial areas of the market we hold companies such as BBA Aviation, which is an almost entirely US driven business, or Victrex which derives in excess of 90% of its sales from outside the UK. Conversely, we are underweight areas of the market with more direct consumer or domestic economic exposure such as Real Estate, Leisure Goods, General Retail and Travel & Leisure. Businesses in these sectors may be more at risk from a weakening of consumer or business sentiment as a result of an unfavourable Brexit deal.

Although the major central banks are at different points in the interest rate cycle they are generally pointing towards a tightening of monetary conditions and a reduction in either the rate of or absolute size of their stimulus packages. All of which suggest that policymakers have a broadly favourable view of the outlook. However, we note that valuations, particularly for good quality companies, remain elevated, and any disappointment in the levels of growth has the potential to result in a de-rating of equity valuations.

Ed Beal
Aberdeen Asset Managers Limited
21 December 2017

Portfolio

Smaller companies had a very good year for the period ended 31 October 2017, posting gains that were in excess of twice those registered by their larger counterparts and which were very attractive in absolute terms.

Key contributors to the Company's out-performance during the year included; Burford Capital, Dechra Pharmaceuticals, Smart Metering Systems, XP Power and Robert Walters.

Portfolio

Ten Largest Investments

As at 31 October 2017

Company	Sector classification	Valuation 2017 £'000	Total assets %	Valuation 2016 £'000
XP Power XP Power is a leading designer and manufacturer of power convertors. The company has been benefiting from substantial gross margin expansion as they have focussed on selling more of their own rather than third party products. Sales are set to benefit over the medium term from recent investment in new product development.	Electronic & Electrical Equipment	7,268	4.6	4,573
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	6,369	4.0	4,700
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	6,063	3.9	3,307
Burford Capital Burford Capital is a leading provider of litigation finance. The business model is not tied to the success of the individual cases though the company can share in any upside. Burford is now large enough to have a broad portfolio of cases on its balance sheet which provides a welcome diversification of creditor risk.	Financial Services	5,453	3.5	2,583
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	5,433	3.4	3,707
AVEVA Group AVEVA Group markets and develops computer software and services for engineering and related solutions.	Software & Computer Services	5,336	3.4	3,367
Robert Walters Robert Walters is leading provider of human resource solutions with a product range that covers a wide range of industries and both the permanent and temporary markets. They have also developed a very successful fully outsourced offering for larger clients. The business is particularly strong in Asia and overseas which reduces its reliance on the UK economy.	Support Services	5,034	3.2	2,795
Dignity Dignity is the UK's leading provider of funeral and crematoria services. This is a market that benefits from highly predictable acyclical demand. The market is highly fragments and Dignity are able to leverage their scale to provide a superior level of service, this is critical in an industry where word of mouth is the dominant form of marketing.	General Retailers	4,858	3.1	2,529
Cairn Homes Cairn Homes are a Dublin based housebuilder. The Irish housing market was deeply affected by the financial crisis and few housebuilders survived. Demand has been strong particularly as the Irish economy has recovered markedly. Cairn have successfully taken a very unusual opportunity to assemble a highly valuable land bank at attractive prices. They are now in the process of building out this land bank.	Household Goods & Home Construction	4,622	2.9	2,484
Acal Acal is a European designer, manufacturer and distributor of niche high value electronic components. They are successfully transitioning their business so that they perform more of the design work and produce customised product. This serves to tie them in with the customers whilst allowing them to capture more of the value chain.	Support Services	4,598	2.9	3,046
Ten largest investments		**55,034**	**34.9**	

Portfolio

Other Investments

As at 31 October 2017

Company	Sector classification	Valuation 2017 £'000	Total assets %	Valuation 2016 £'000
Genus	Pharmaceuticals & Biotechnology	4,555	2.9	2,758
RPC Group	General Industrials	4,554	2.9	5,034
Victrex	Chemicals	4,484	2.8	3,274
Ultra Electronic	Aerospace & Defence	4,449	2.8	3,140
Fenner	Industrial Engineering	4,165	2.6	2,646
Stock Spirits Group	Beverages	4,120	2.6	1,589
Hansteen Holdings	Real Estate Investment Trusts	4,101	2.6	3,218
BBA Aviation	Industrial Transportation	4,089	2.6	3,323
Morgan Sindall	Construction & Materials	3,858	2.4	2,753
Rathbone Brothers	Financial Services	3,655	2.3	2,546
Twenty largest investments		**97,064**	**61.4**	
Oxford Instruments	Electronic & Electrical Equipment	3,618	2.3	2,904
Xaar	Electronic & Electrical Equipment	3,612	2.3	2,307
Fisher (James) & Sons	Industrial Transportation	3,607	2.3	4,013
Abcam	Pharmaceuticals & Biotechnology	3,502	2.2	2,404
Wilmington Group	Media	3,392	2.2	3,743
Intermediate Capital Group	Financial Services	3,232	2.1	2,011
Fuller Smith & Turner 'A'	Travel & Leisure	3,109	2.0	2,777
Chesnara	Life Insurance	3,087	2.0	2,158
Barr (AG)	Beverages	3,010	1.9	1,932
Assura	Real Estate Investment Trusts	2,995	1.9	1,686
Thirty largest investments		**130,228**	**82.6**	
Victoria	Household Goods & Home Construction	2,943	1.8	–
Savills	Real Estate Investment & Services	2,836	1.8	2,110
Devro International	Food Producers	2,771	1.8	2,583
Patisserie	Travel & Leisure	2,633	1.7	–
Elementis	Chemicals	2,487	1.6	3,509
Mothercare	General Retailers	2,242	1.4	1,417
Manx Telecom	Fixed Line Telecommunications	2,210	1.4	2,372
Keller Group	Construction & Materials	2,186	1.4	1,302
Gresham Technologies	Software & Computer Services	1,471	0.9	–
Helical Bar	Real Estate Investment & Services	1,444	0.9	1,244
Forty largest investments		**153,451**	**97.3**	
TT Electronics	Electronic & Electrical Equipment	1,203	0.8	1,512
Interserve	Support Services	149	0.1	2,650
Total investments		**154,803**	**98.2**	
Net current assets[A]		2,827	1.8	
Total assets less current liabilities		157,630	100.0	

[A] Excludes bank loan of £5,000,000 (2016 – £5,000,000).

Portfolio

Sector Analysis

As at 31 October 2017

		FTSE SmallCap Index (ex IC's) weighting %	Portfolio weightings 31 October 2017 %	31 October 2016 %
Basic Materials	Chemicals	0.96	4.50	5.93
	Mining	2.60	–	–
		3.56	4.50	5.93
Consumer Goods	Beverages	1.00	4.61	3.08
	Food Producers	4.42	1.79	2.26
	Household Goods & Home Construction	2.53	4.89	2.17
	Leisure Goods	2.12	–	–
		10.07	11.29	7.51
Consumer Services	Food & Drug Retailers	0.46	–	–
	General Retailers	5.14	4.59	3.45
	Media	4.67	5.70	7.56
	Travel & Leisure	5.39	3.71	2.43
		15.66	14.00	13.44
Financials	Financial Services	5.66	7.97	6.24
	Life Insurance	1.35	2.00	1.89
	Real Estate Investment & Services	6.46	2.76	2.93
	Real Estate Investment Trusts	10.58	4.58	4.29
		24.05	17.31	15.35
Health Care	Health Care Equipment & Services	2.27	–	–
	Pharmaceuticals & Biotechnology	1.13	9.32	8.62
		3.40	9.32	8.62
Industrials	Aerospace & Defence	1.60	2.87	2.74
	Construction & Materials	7.79	3.90	3.54
	Electronic & Electrical Equipment	4.96	13.11	9.87
	General Industrials	0.48	2.94	4.40
	Industrial Engineering	3.03	2.69	2.31
	Industrial Transportation	0.58	4.97	6.41
	Support Services	13.41	7.27	14.01
		31.85	37.75	43.28
Oil & Gas	Oil & Gas Producers	2.76	–	0.86
	Oil Equipment, Services & Distribution	0.59	–	–
		3.35	–	0.86
Technology	Software & Computer Services	2.89	4.40	2.94
	Technology Hardware & Equipment	4.02	–	–
		6.91	4.40	2.94
Telecommunications	Fixed Line Telecommunications	1.15	1.43	2.07
		1.15	1.43	2.07
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, nine 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 and Investment 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: 19 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: 1 February 2017

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

T J K Barnes

Status: Senior Independent Non-Executive Director

Length of service: 14 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: 1 February 2017

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

A Henderson

Status: Independent Non-Executive Director

Length of service: 4 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: 3 years, appointed a Director on 1 January 2015

Experience: is Head of SG 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 2017.

Results and Dividends

The financial statements for the year ended 31 October 2017 are contained on pages 46 to 62.

An interim dividend of 2.15p (2016 – 2.15p) per share was paid on 28 July 2017 and the Board recommends that a final dividend of 4.24p (2016 – 4.00p) per share is paid on 16 February 2018 to shareholders on the register on 19 January 2018. The ex-dividend date is 18 January 2018. 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 2017 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 2017, the Company had 47,857,317 fully paid Ordinary shares of 5p each (2016 – 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 ("AFML"), a wholly owned subsidiary of Standard Life Aberdeen 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 ("AAML") 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.

Details of the management fee and fees payable for promotional activities are shown in notes 4 and 5 of the financial statements. 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 2017 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]	11,976,480	25.0
Standard Life Aberdeen plc	7,340,334	15.3
Derbyshire County Council	2,819,000	5.9
D C Thomson & Company Ltd	2,030,000	4.2

[A] Non-beneficial interest

The following changes have been notified to the Company since the end of the year:

- Standard Life Aberdeen plc: 6,620,334 shares (13.8%)
- 1607 Capital Partners LLC: 3,985,800 shares (8.3%)
- Derbyshire County Council: 819,000 shares (1.7%)

There have been no other changes notified to the Company as at the date of approval of this Report.

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 April 2016 and effective for financial years commencing on or after 1 June 2016, 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 July 2016 (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 its website.

Directors

The Board consists of four independent non-executive Directors who served throughout the year. The names and biographies of each of the Directors are shown on pages 28 and 29 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 2017 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	4 (4)	2 (2)	1 (1)
A Henderson	4 (4)	2 (2)	1 (1)
C M D Thomson	4 (4)	2 (2)	1 (1)

Ms A Henderson and Mr C M D Thomson retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. 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, also offer themselves for re-election.

The Board believes that all four Directors seeking re-election 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 all four Directors 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

Directors' Report continued

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.

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 its 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 38 to 40.

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.

The Board remains satisfied with the capability of the Aberdeen Group to deliver satisfactory investment performance and, 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. 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, Mr T J K Barnes, 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 2022. 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 42, and 43 to 45.

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 40 Princes Street, Edinburgh EH2 2BY on 8 February 2018 at 12 noon. The Notice of Annual General Meeting is included on pages 71 to 74. Resolutions including the following business will be proposed.

Allotment of Shares

Resolution 10 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 to be held in 2019 (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 11 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 12 (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 11 is conditional on the passing of resolution 12.

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 2019.

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 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 12) at the Annual General Meeting which, if passed, will allow them to allot shares (and securities convertible into shares), or to sell 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 (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

Directors' Report continued

conclusion of the Annual General Meeting to be held in 2019. New Ordinary shares would not be issued at a price that is less than the prevailing net asset value per share.

Share Repurchases

Resolution 13 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 13, 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 2019 (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 72,876 Ordinary shares, representing 0.15% of the issued Ordinary share capital of the Company.

By order of the Board

for **Aberdeen Asset Management PLC**
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
21 December 2017

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 1 February 2017;
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 43 to 45.

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 the Retail Prices Index ("RPI") and, if considered appropriate, increased accordingly.

	31 October 2017 £	31 October 2016 £
Chairman	26,562	25,664
Chairman of Audit Committee	23,265	22,478
Director	19,925	19,251

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.

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 £26,562, £23,265 and £19,925 for the Chairman, Audit Committee Chairman and remaining Directors respectively, effective from 1 July 2017. 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 nine year period to 31 October 2017 (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 1 February 2017, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 October 2016: 98.0% of proxy votes were in favour of the resolution, 1.3% were against, and 0.7% abstained. At that meeting, shareholders also approved the Directors' Remuneration Policy: 97.8% of proxy votes were in favour of the resolution, 1.3% were against, and 0.9% abstained.

A resolution to approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 October 2017 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	2017 £	2016 £
N M Yarrow	25,963	25,445
T J K Barnes	19,476	19,086
A Henderson	22,740	22,286
C M D Thomson	19,476	19,086
Total	**87,655**	**85,903**

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 2017 and 31 October 2016 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 2017 Ordinary Shares	31 October 2016 Ordinary Shares
N M Yarrow	40,000	35,000
T J K Barnes	17,825	17,825
A Henderson	5,051	5,051
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 2017:

- 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
21 December 2017

Audit Committee's Report

The Audit Committee presents its Report for the year ended 31 October 2017.

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 half-yearly and annual 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 £6,000 (2016 - £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, amongst other matters, it considered the Annual Report and the Half-Yearly Financial Report in detail and met with the Auditor. 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 robust 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 2017 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, through the Audit Committee, 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 on internal controls 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:

- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- 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;
- 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 2017, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2017 by considering documentation from the Aberdeen Group, including the internal audit and compliance functions and taking account of events since 31 October 2017.

The Board has considered the need for an internal audit function. However, the Company has no employees and the day-to-day management of the Company's assets has been delegated to the Aberdeen Group which has its own compliance and internal control systems. The Board has therefore decided to place reliance on those systems and internal audit procedures and has concluded that it is not necessary for the Company to have its own internal audit function.

Financial Statements and Significant Issues

During its review of the Company's financial statements for the year ended 31 October 2017, the Audit Committee considered the following issue, which was 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.

Review of Auditor

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

- **Independence** - the Auditor discusses with the Audit Committee, at least annually, the steps it takes to ensure its independence and objectivity and makes the Committee aware of any potential issues, explaining all relevant safeguards.
- **Quality of audit work** - including the ability to resolve issues in a timely manner (identified issues are satisfactorily and promptly resolved), its communications/presentation of outputs (the explanation of the audit plan, any deviations from it and the subsequent audit findings are comprehensive and comprehensible), and working relationship with management (the Auditor has a constructive working relationship with the Manager).

Audit Committee's Report continued

- **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 partner).

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

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 2017 will be the first year for which the present audit partner has served. Under 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 legislation in 2014, there is a grace period of nine years after the enactment of the legislation. Accordingly, 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 partner 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
Chairman of the Audit Committee
21 December 2017

Alexa Henderson

Financial Statements

The net asset value ("NAV") total return for the year ended 31 October 2017 was 32.8%, a significant outperformance of the benchmark, the FTSE SmallCap Index (ex Investment Companies), which delivered a total return of 21.9%.

The positive performance was broadly spread across the portfolio.

The Board proposes a final dividend of 4.24p per share. When combined with the interim dividend, the total dividend for the year will amount to 6.39p, an increase of 3.9% for the year and in line with the rate of inflation. This is equivalent to a yield of 2.5% based on the year end share price of 253.0p.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 are required 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 its profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 complies 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, but not for the content of any information included on the website that has been prepared or issued by third parties. 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 set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
N M Yarrow
Director
21 December 2017

Norman Yarrow

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

1. Our opinion is unmodified

We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC (the "Company") for the year ended 31 October 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash flows, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2017 and of its net 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as Auditor by the Company before 1996. The period of total uninterrupted engagement is at least the 22 financial years ended 31 October 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2016), in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. The matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Carrying amount of quoted equity investments £154.8 million (2016: £114.4 million)
Refer to page 39 (Audit Committee's Report), page 50 (accounting policy) and page 55 (financial disclosures).

The Risk: Low risk, high value. The Company's portfolio of quoted equity investments makes up 97.4% (2016 - 93.1%) of the Company's total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a 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 included:

- Tests of detail: Agreeing the valuation of 100% of quoted investments in the portfolio to externally quoted prices; and
- Enquiry of custodians: Agreeing 100% of investment holdings in the portfolio to independently received third party confirmation from investment custodian.

Our Results: We found the resulting carrying amount of quoted equity investments to be acceptable (2016 – acceptable).

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

Materiality for the financial statements as a whole was set at £1.6 million (2016 - £1.2 million), determined with reference to a benchmark of total assets, of which it represents 1% (2016 - 1%).

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £79,000 (2016 - £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 offices in Dundee.

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

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 2(a) to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 32 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' Report
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosure of principal risks and longer term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on pages 11 and 12 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective Responsibilities

Directors' Responsibilities

As explained more fully in their statement set out on page 42, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

John Waterson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG
21 December 2017

Statement of Comprehensive Income

	Notes	Year ended 31 October 2017 Revenue return £'000	Capital return £'000	Total return £'000	Year ended 31 October 2016 Revenue return £'000	Capital return £'000	Total return £'000
Gains on investments	10	–	36,652	36,652	–	5,278	5,278
Income	3	3,221	–	3,221	3,459	–	3,459
Investment management fee	4	(142)	(1,209)	(1,351)	(116)	(377)	(493)
Administrative expenses	5	(456)	–	(456)	(450)	–	(450)
Currency gains/(losses)		–	12	12	–	(4)	(4)
Net return before finance costs and taxation		2,623	35,455	38,078	2,893	4,897	7,790
Finance costs	6	(31)	(93)	(124)	(31)	(93)	(124)
Net return before taxation		2,592	35,362	37,954	2,862	4,804	7,666
Taxation	7	–	–	–	–	–	–
Net return attributable to equity shareholders		2,592	35,362	37,954	2,862	4,804	7,666
Return per Ordinary share (pence)	9	5.42	73.89	79.31	5.98	10.04	16.02

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 2017 £'000	As at 31 October 2016 £'000
Non-current assets			
Investments at fair value through profit or loss	10	154,803	114,441
Current assets			
Debtors and prepayments	11	339	328
Cash and short term deposits		3,747	8,122
		4,086	8,450
Creditors: amounts falling due within one year			
Bank loan	12,16	(5,000)	–
Other creditors	12	(1,259)	(273)
		(6,259)	(273)
Net current (liabilities)/assets		(2,173)	8,177
Total assets less current liabilities		152,630	122,618
Creditors: amounts falling due after more than one year			
Bank Loan	12	–	(5,000)
Net assets		152,630	117,618
Capital and reserves			
Called-up share capital	13	2,393	2,393
Share premium account		30	30
Capital redemption reserve		2,233	2,233
Capital reserve	14	143,501	108,139
Revenue reserve		4,473	4,823
Equity shareholders' funds		**152,630**	**117,618**
Net asset value per Ordinary share (pence)	15	**318.93**	**245.77**

The financial statements were approved by the Board of Directors and authorised for issue on 21 December 2017 and were signed on its behalf by:

N M Yarrow
Chairman

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

Statement of Changes in Equity

For the year ended 31 October 2017

	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 2016		2,393	30	2,233	108,139	4,823	117,618
Net return attributable to equity shareholders		–	–	–	35,362	2,592	37,954
Dividends paid	8	–	–	–	–	(2,942)	(2,942)
Balance at 31 October 2017		2,393	30	2,233	143,501	4,473	152,630

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
Net return attributable to equity shareholders		–	–	–	4,804	2,862	7,666
Dividends paid	8	–	–	–	–	(2,871)	(2,871)
Balance at 31 October 2016		2,393	30	2,233	108,139	4,823	117,618

[A] See note 14 for further details on the Capital reserve.

The revenue reserve and the part of the Capital reserve represented by realised capital gains represent 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

	Year ended 31 October 2017 £'000	Year ended 31 October 2016 £'000
Operating activities		
Net return before finance costs and taxation	38,078	7,790
Adjustment for:		
Gains on investments	(36,652)	(5,278)
Currency gains	(12)	–
Scrip dividends included in investment income	(27)	–
Decrease/(increase) in dividend income	68	(27)
Decrease in other debtors	11	4
Increase in creditors	783	16
Net cash flow from operating activities	2,249	2,505
Investing activities		
Purchases of investments	(24,040)	(15,754)
Sales of investments	20,470	18,837
Net cash (outflow)/inflow from investing activities	(3,570)	3,083
Financing activities		
Interest paid	(124)	(124)
Equity dividends paid	(2,942)	(2,871)
Net cash flow used in financing activities	(3,066)	(2,995)
(Decrease)/increase in cash and cash equivalents	**(4,387)**	**2,593**
Analysis of changes in cash and cash equivalents during the period		
Opening balance	8,122	5,529
Effect of exchange rate fluctuations on cash held	12	–
(Decrease)/increase in cash above	(4,387)	2,593
Closing balance	**3,747**	**8,122**

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

Notes to the Financial Statements For the year ended 31 October 2017

1. Principal activity

The Company is a closed-end investment company, registered in Scotland No SC014692, with its Ordinary shares being listed on the London Stock Exchange.

2. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with guidance set out in the Statement of Recommended Practice: 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in January 2017 with consequential amendments. 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 32.

(b) Revenue, expenses and interest payable

Income from equity investments, 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 4 and 6). Performance fees are allocated wholly to capital.

(c) Investments

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

The tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the Statement of Financial Position date.

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.

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. The part of this reserve represented by realised capital gains is available for distribution by way of dividend.

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 judgement which impact these financial statements.

Notes to the Financial Statements continued

3. Income	2017 £'000	2016 £'000
Income from investments		
UK dividend income	2,697	2,992
Overseas dividend income	330	349
Property income distributions	155	97
UK scrip dividend income	27	–
	3,209	3,438
Other income		
Underwriting commission	10	9
Deposit interest	2	12
	12	21
Total income	3,221	3,459

4. Management fee	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Management fee	142	425	567	116	350	466
Performance fee	–	784	784	–	27	27
	142	1,209	1,351	116	377	493

The management fee paid to the Manager is calculated at 0.4% per annum of the gross assets of the Company after deducting liabilities and excluding commonly managed funds. The Company held no commonly managed funds during the year (2016 – same). The sum due to the Manager at the year end was £156,000 (2016 – £131,000). Management fees are allocated 75% to capital and 25% to revenue.

In addition, the Manager is entitled to an annual performance–related fee calculated at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets, as at 31 October each year, for every 1% by which the Company's net asset value performance outperforms the capital performance of the FTSE SmallCap Index (ex Investment Trusts) over the preceding twelve month period. The sum due to the Manager at the year end was £784,000 (2016 – £nil). Performance fees are allocated 100% to capital.

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

5. Administrative expenses	2017 £'000	2016 £'000
Directors' fees	88	86
Auditor's remuneration – fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	17	16
– the review of the Company's half yearly accounts	6	5
Secretarial fee	103	101
Promotional activities	52	56
Share plan costs	25	30
Registrar's fees	16	14
Advisory fees	43	40
Other expenses	106	102
	456	450

A secretarial fee of £103,000 (2016 – £101,000) was paid to the Manager. The sum due to the Manager at the year end was £26,000 (2016 – £25,000).

Expenses of £52,000 (2016 – £56,000) were paid to the Manager in respect of promotional activities for the Company. The sum due to the Manager at the year end was £4,000 (2016 – £18,000).

All of the expenses above, with the exception of Auditor's remuneration, include irrecoverable VAT where applicable. For Auditor's remuneration this amounted to £3,000 (2016 – £4,000).

	2017			2016		
	Revenue	Capital	Total	Revenue	Capital	Total
6. Finance costs	£'000	£'000	£'000	£'000	£'000	£'000
Bank loan interest	31	93	124	31	93	124

7. Taxation

There is no liability to corporation tax for the year (2016 – £nil).

The effective rate of corporation tax was 19.42% (corporation tax rate 20% from 1 November 2016 until 31 March 2017 and then 19% thereafter) (2016 – 20% during the year).

Notes to the Financial Statements continued

	2017			2016		
	Revenue	Capital	Total	Revenue	Capital	Total
Factors affecting tax charge for the year	£'000	£'000	£'000	£'000	£'000	£'000
Net revenue before taxation	2,592	35,362	37,954	2,862	4,804	7,666
Corporation tax of 19.42% (2016: effective rate of 20%)	503	6,866	7,369	572	961	1,533
Effects of:						
Non-taxable UK dividend income	(529)	–	(529)	(598)	–	(598)
Non taxable overseas dividends	(64)	–	(64)	(70)	–	(70)
Gains on investment not taxable	–	(7,117)	(7,117)	–	(1,055)	(1,055)
Currency gains/(losses)	–	(2)	(2)	–	–	–
Excess management expenses not utilised	90	253	343	96	94	190
	–	–	–	–	–	–

At the year end, after offset against income taxable on receipt, there is a potential deferred tax asset of £5,589,000 (2016 – £5,289,000) 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.

	2017	2016
8. Dividends	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2016 – 4.00p (2015 – 3.85p)	1,914	1,843
Interim dividend for 2017 – 2.15p (2016 – 2.15p)	1,029	1,029
Return of unclaimed dividends	(1)	(1)
Dividends paid in the year	**2,942**	**2,871**

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 £2,592,000 (2016 – £2,862,000).

	2017	2016
	£'000	£'000
Interim dividend for 2017 – 2.15p (2016 – 2.15p)	1,029	1,029
Proposed final dividend for 2017 – 4.24p (2016 – 4.00p)	2,029	1,914
	3,058	**2,943**

	2017	2016
9. Return per Ordinary share	p	p
Revenue return	5.42	5.98
Capital return	73.89	10.04
Total return	**79.31**	**16.02**

The figures above are based on the following:

	2017 £'000	2016 £'000
Revenue return	2,592	2,862
Capital return	35,362	4,804
Total return	**37,954**	**7,666**
Weighted average number of Ordinary shares in issue	**47,857,317**	**47,857,317**

10. **Investments**	Listed in UK 2017 £'000	Listed in UK 2016 £'000
Fair value through profit or loss:		
Opening fair value	114,441	113,158
Opening fair value gains on investments held	(30,258)	(31,745)
Opening book cost	84,183	81,413
Purchases at cost	24,272	14,842
Sales – proceeds	(20,562)	(18,837)
Sales – gains on sales	4,103	6,765
Closing book cost	91,996	84,183
Closing fair value gains on investments held	62,807	30,258
Closing fair value	**154,803**	**114,441**

Gains on investments	2017 £'000	2016 £'000
Gains on sales of equities	4,103	6,765
Movement in fair value gains on investments held	32,549	(1,487)
	36,652	**5,278**

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:

	2017 £'000	2016 £'000
Purchases	98	72
Sales	10	18
	108	**90**

Notes to the Financial Statements continued

11. Debtors: amounts falling due within one year	2017 £'000	2016 £'000
Net dividends and interest receivable	239	307
Amounts due from brokers	92	–
Other debtors and prepayments	8	21
	339	328

12. Creditors: amounts falling due within one year

(a) Bank loan

At the year end the Company had a £5 million revolving facility agreement in place as well as a three year £5 million term loan facility, both with Scotiabank Europe. The full £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 contained covenants that the minimum net assets of the Company are £50 million and the percentage of borrowings against net assets should not be more than 25%.

On 24 November 2017, the Company renewed its £5 million revolving facility agreement as well as agreeing a new five year term loan facility of £5 million with Scotiabank Europe. £5 million is currently drawn down at a fixed interest rate of 2.78% until 24 November 2022. The terms of the loan facility contain covenants that the minimum net assets of the Company are £70 million and the percentage of borrowings against net assets should not be more than 25%.

(b) Other creditors	2017 £'000	2016 £'000
Management and performance fee	940	131
Amounts due to brokers	205	–
Sundry creditors	114	142
	1,259	273

13. Called-up share capital	2017 £'000	2016 £'000
Allotted, called-up and fully paid		
47,857,317 Ordinary shares of 5p each (2016 – same)	2,393	2,393

14. Capital reserve	2017 £'000	2016 £'000
At 1 November	108,139	103,335
Gains on realisation of investments at fair value	4,103	6,765
Movement in fair value gains on investments held	32,549	(1,487)
Management and performance fees	(1,209)	(377)
Finance costs	(93)	(93)
Currency gains/(losses)	12	(4)
At 31 October	143,501	108,139

The capital reserve includes investment holding gains amounting to £62,807,000 (2016 – £30,258,000), as disclosed in note 10.

15. Net asset value per share	2017	2016
Equity shareholders' funds	£152,630,000	£117,618,000
Number of Ordinary shares in issue at year end	47,857,317	47,857,317
Equity shareholders' funds per share	318.93p	245.77p

16. 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 64 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 price 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

Notes to the Financial Statements continued

account when making investment and borrowing decisions.

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

The Company has borrowing facilities by way of a £5 million revolving facility agreement as well as a five year £5 million term loan facility, both with Scotiabank Europe. Details of drawn down borrowings as at 31 October 2017 are shown in note 12.

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 2017	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	–	–	3,747	–
Total assets	–	–	3,747	–
Liabilities				
Bank loans	0.07	2.17	–	(5,000)
Total liabilities	–	–	–	(5,000)

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)

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 12 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 2017	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Bank loan	(5,000)	–
Floating rate		
Cash	3,747	–
Total	**(1,253)**	–

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)**

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 2017 would increase/decrease by £37,000 (2016 – increase/decrease by £81,000). 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 64, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on the London Stock Exchange.

Other price risk sensitivity

If market prices at the 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 2017 would have increased/decreased by £15,480,000 (2016 – £11,444,000). 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 five 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 12) 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 12. 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:

- 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 2017 was considered to be the same as the carrying amount of the financial assets in the Statement of Financial Position.

	2017 £'000	2016 £'000
Non-current assets		
Securities at fair value through profit or loss	154,803	114,441
Current assets		
Trades and other receivables	100	21
Accrued income	239	307
Cash and cash equivalents	3,747	8,122
	158,889	122,891

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.

17. 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 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 (i.e., as prices) or indirectly (i.e., 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 (2016 – 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 £154,803,000 (2016 – £114,441,000) 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 have been no transfers of assets or liabilities between levels of the fair value hierarchy during 2017 and 2016.

18. Capital management policies and procedures

The Company's capital management objectives are:

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

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

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

Notes to the Financial Statements continued

19. 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 pages 35 to 37.

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 4 and 5.

20. Alternative performance measures

Total return is considered to be an alternative performance measure. NAV total return involves investing the same net dividend in the NAV of the Company on the date on which that dividend was earned. Share price total return involves reinvesting the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 October 2017 and 31 October 2016.

2017	Dividend rate	NAV	Share price
31 October 2016	N/A	245.77p	202.00p
12 January 2017	4.00p	259.73p	208.50p
6 July 2017	2.15p	282.46p	233.00p
31 October 2017	N/A	318.93p	253.00p
Total return		32.8%	28.8%

2016	Dividend rate	NAV	Share price
31 October 2015	N/A	235.75p	200.38p
14 January 2016	3.85p	228.54p	192.50p
7 July 2016	2.15p	221.09p	173.75p
31 October 2016	N/A	245.77p	202.00p
Total return		**7.0%**	**4.1%**

Corporate Information

The Manager is a subsidiary of Aberdeen Asset Management PLC, which merged with Standard Life plc on 14 August 2017 to form Standard Life Aberdeen plc. Assets under the management of the combined investment division, Aberdeen Standard Investments, were £570 billion at 30 September 2017.

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, which merged with Standard Life plc on 14 August 2017 to form Standard Life Aberdeen plc. Assets under the management of the combined investment division, Aberdeen Standard Investments, were £570 billion at 30 September 2017.

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 Services, 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 Pre-investment Disclosure Document ("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 70.

Pre-investment Disclosure Document

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 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

The 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 the Aberdeen Group or for third party firms. The 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 the Aberdeen Group and any third party making such offers/claims has no link with the Aberdeen Group.

The 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 information 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 dialling from a UK landline).

If you have any questions about your Company, the Manager or performance, please telephone the Aberdeen Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, you may email Aberdeen 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@aberdeenstandard.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

Investor Information continued

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 participation by instructing Aberdeen 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

Aberdeen 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 Aberdeen 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 £20,000 can be made in each of the 2017/2018 and 2018/2019 tax years.

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

The annual tax-free allowance on dividend income is £5,000 for the 2017/2018 tax year and £2,000 for the 2018/2019 tax year. 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 provides 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 dialling from a UK landline)

Terms and conditions for the Aberdeen 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/TD Direct
- Selftrade Equiniti
- The Share Centre
- Stocktrade

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 Personal Investment Management & Financial Advice Association at: pimfa.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 65 to 67 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, which merged with Standard Life plc on 14 August 2017 to form Standard Life Aberdeen plc.
AIC	The Association of Investment Companies.
AIFMD	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.
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 or AAML	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 FCA.
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 FCA.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose include 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	This 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.
Pre-Investment Disclosure Document ("PIDD")	The AIFM and the Company are required to make certain disclosures available to investors in accordance with the AIFMD. Those disclosures that are required to be made pre-investment are included within a PIDD, which can be found on the Company's website.
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 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, 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, irrespective of the time until repayment.
Total Assets	Total assets less current liabilities (before deducting Prior Charges as defined above) as per the Statement of Financial Position.
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.

Your Company's Share Capital History

Issued Share Capital at 31 October 2017

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 2016.

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 8 to 12, note 16 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 AIFM's 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 2017 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 2017	1.01	1.04

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 ninetieth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at the offices of Aberdeen Asset Management PLC, 40 Princes Street, Edinburgh EH2 2BY on Thursday 8 February 2018 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 2017.
2. To receive and adopt the Directors' Remuneration Report (excluding the Directors' Remuneration Policy).
3. To approve a final dividend of 4.24p per Ordinary share.
4. To re-elect Ms Alexa Henderson as a Director of the Company.
5. To re-elect Mr Christopher Thomson as a Director of the Company.
6. To re-elect Mr James Barnes as a Director of the Company.
7. To re-elect Mr Norman Yarrow as a Director of the Company.
8. To re-appoint KPMG LLP as Auditor of the Company.
9. To authorise the Directors to determine the remuneration of the Auditor for the year to 31 October 2018.
10. 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 to be held in 2019, 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:

11. That, subject to and conditional upon the passing of resolution 12 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 12 set out below; and
    (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2019, (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.
12. That, subject to the passing of resolution number 10 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 10 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 or sale 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 to be held in 2019, 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.

13. 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") and to cancel or hold in treasury such 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 2019 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
Aberdeen Asset Management PLC
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
10 January 2018

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 6 February 2018 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 21 December 2017 (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 21 December 2017 was 47,857,317.

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

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

Notice of Annual General Meeting continued

(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. to 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")

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Legal Entity Identifier ("LEI")

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