The European Smaller Companies Trust PLC

Annual Report 2023

MANAGED BY
Janus Henderson
INVESTORS

Our purpose is to deliver a long-term sustainable return to shareholders from investing in smaller and medium sized European companies.

Front cover:

Cork production line
Corticeira Amorim

Percentage of portfolio: 0.9%
Geographical area: Portugal
Cork manufacturers engaged in the research, development and promotion of products and new solutions for the cork industry.

Strategic Report

Governance

Financial Statements

Additional information

Performance highlights at 30 June

NAV per share at year end[1, 4]

2023	2022
184.26p	162.76p

Share price at year end

2023	2022
154.00p	140.00p

Dividend for year[2]

2023	2022
4.70p	4.35p

Net assets

2023	2022
£739m	£652m

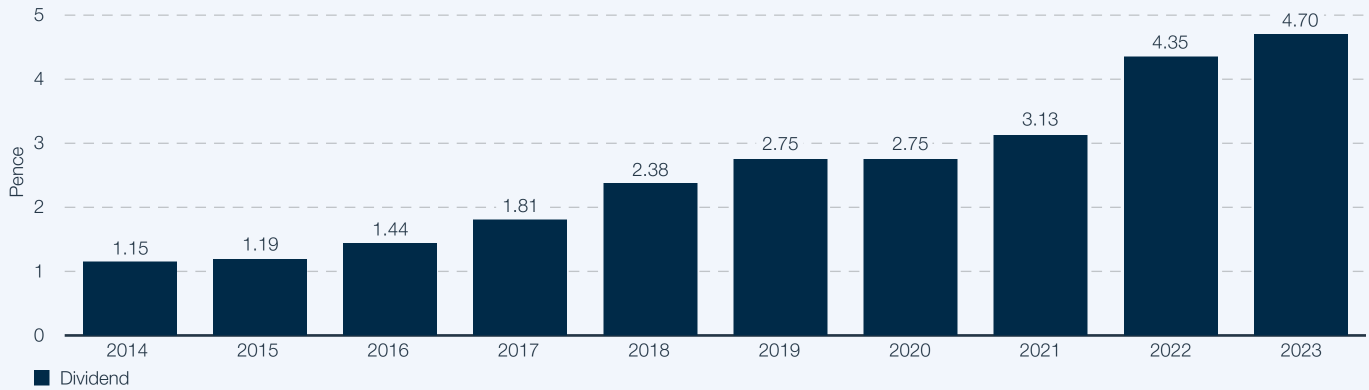
Ongoing charge excluding the performance fee[3, 4]

2023	2022
0.65%	0.65%

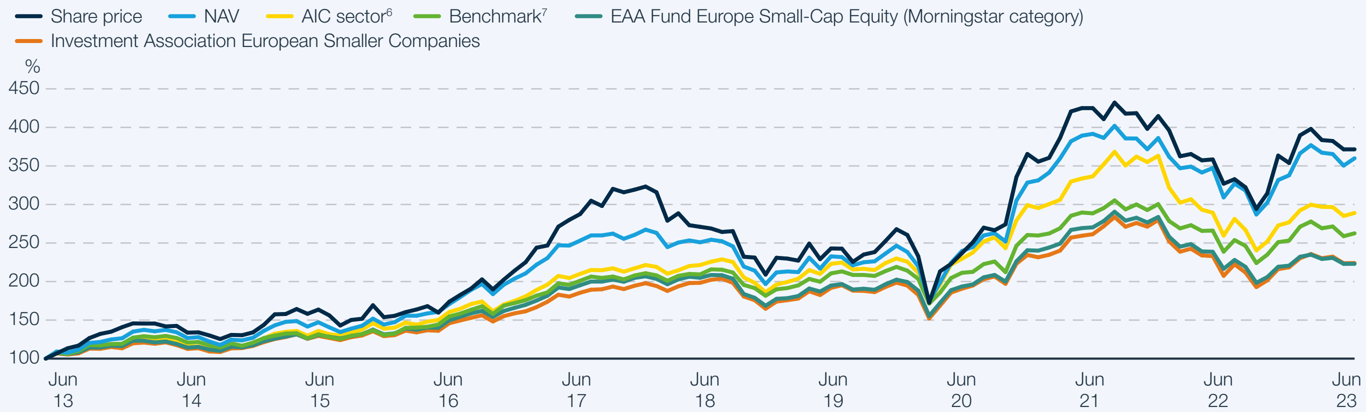
Ongoing charge including performance fee[3, 4]

2023	2022
1.67%	1.37%

Dividends paid



Total return performance for the 10 years to 30 June 2023 (rebased to 100)[4, 5]



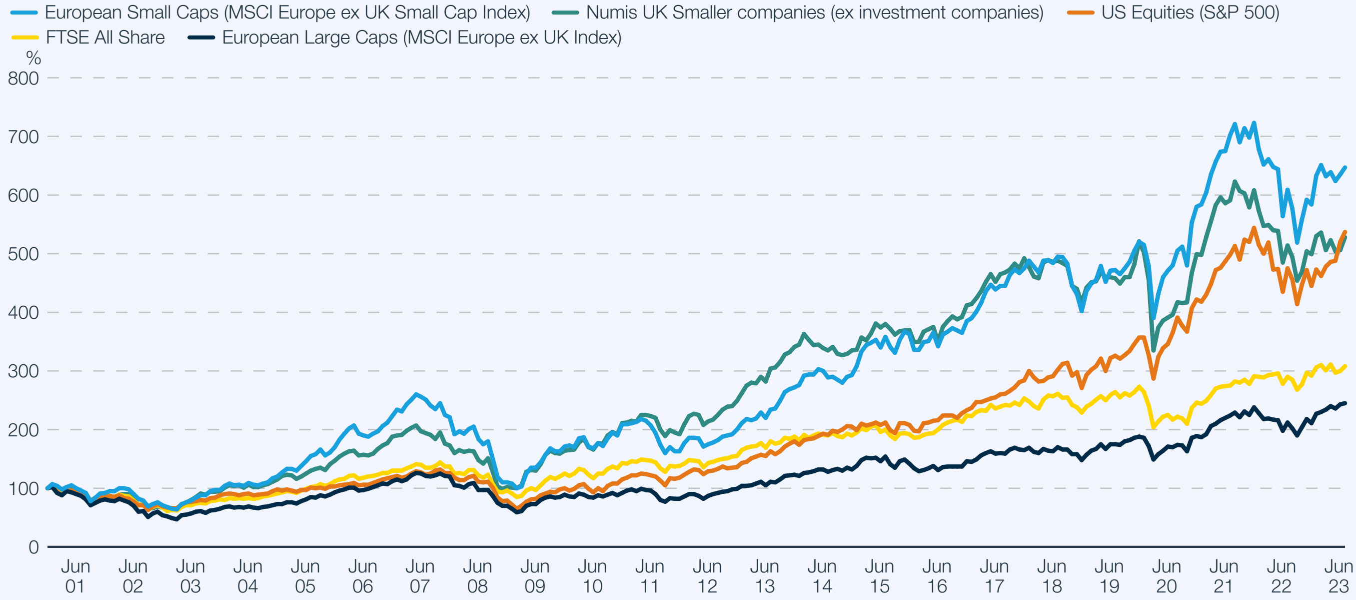
1 Net asset value per ordinary share
2 Includes the interim dividend and final dividend recommended to shareholders for approval
3 Calculated using the methodology prescribed by the Association of Investment Companies ('AIC')
4 The NAV per share, NAV total return, share price total return and ongoing charge are regarded as Alternative Performance Measures. More information on these can be found on pages 79 and 80
5 NAV total return performance per ordinary share assumes all income is reinvested
6 Average NAV total return for the AIC European Smaller Companies sector
7 Euromoney Smaller European Companies (ex UK) Index up to 30 June 2022, thereafter the MSCI Europe ex UK Small Cap Index

Sources: Morningstar Direct, Janus Henderson Investors

A glossary of terms can be found on page 81

Why invest in small and medium sized European companies?

Small caps have a long term record of outperforming large caps (index total return %, rebased to 100)

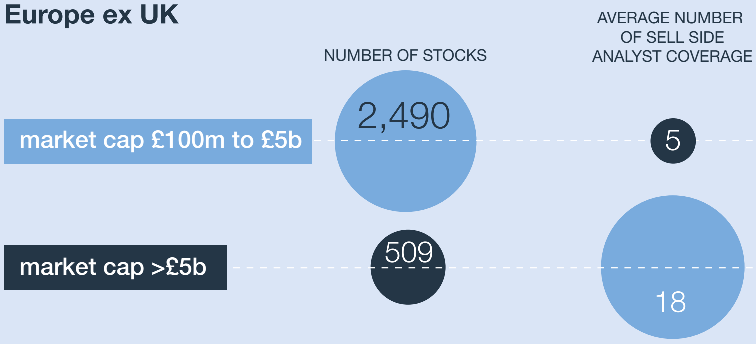


European small caps have outperformed large caps in 16 of the last 22 years (calendar year total returns)

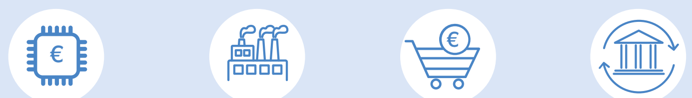
%	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
European Small Caps	-8.0	-23.1	37.9	23.5	41.3	31.4	-1.0	-50.1	54.5	22.4	-21.9	22.6	36.1	7.6	23.9	6.3	23.2	-15.3	29.3	11.6	24.6	-19.3	8.8
European Large Caps	-18.7	-33.1	20.1	11.1	27.6	20.6	7.7	-41.9	28.0	3.3	-10.8	20.6	23.6	7.5	7.5	2.6	13.1	-10.0	26.9	0.4	25.6	-11.3	15.2
Relative	10.7	10.0	17.8	12.4	13.7	10.8	-8.7	-8.2	26.5	19.1	-11.1	2.0	12.5	0.1	16.4	3.7	10.1	-5.3	2.4	11.2	-1.0	-8.0	-6.4

Small cap has a larger universe to choose from, stocks are less well covered by analysts meaning a greater opportunity to find mispriced securities

Europe ex UK



The smaller companies sector is an imperfect market which is ideal for active fund management. It offers exposure to high growth niches such as:



Fintech **Warehouse automation** **e-commerce** **Circular economy**

Source: Morningstar Direct

Going forward growth will be aided by recovery/green fund

The EU has announced:

'Next Generation EU'; amounting to €750bn[1]

€390bn grants
+
€360bn loans

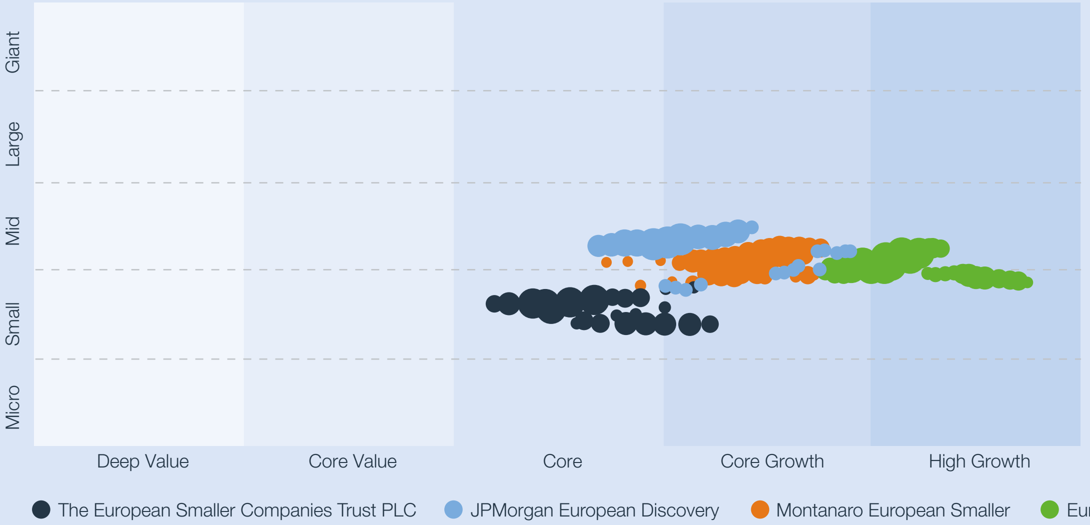
The spending will be focused on digital and green infrastructure. This marks the first-ever mutually financed stimulus programme and lays the framework for a period of greater political stability on the Continent.

1 Based on 2018 prices

Why invest in this Company?

We are a true small cap Company[1]

- c.50% of the portfolio in stocks with a market cap <€1b (measured by free float)
- Lower average market cap than peers



Valuation remains relevant

- Purchase growth only at reasonable price
- Balance between growth and value
- Willing to look at neglected areas of the market

Highly exposed to ESG beneficiaries

Why this Trust?[2]

Investing in businesses that have a positive impact on the development of a sustainable global economy

2 Zero Hunger: Alzchem, NED Apparaten

3 Good Health and Well-Being: Barco, Caverion, CSAM Health, Daetwyler, Elekta, Evotec, Karnov, Lisi, Manz, Metall Zug, Mithra, NED Apparaten, SAES Getters, Safilo, SLM Solutions, Somfy, Stabilus, TKH, Van Lanschot

4 Quality Education: Academedia, Mondadori, Karnov, Prisa, Sanoma

5 Gender Equality: Mithra Pharma

6 Clean Water and Sanitation: KSB

7 Affordable and Clean Energy: Barco, Bekaert, Boskalis, Caverion, Concentric, Energiekontor, Fjordkraft, Friedrich Vorwerk, Fugro, Granges, Grenergy Renovables, KSB, Manz, Mersen, Mytilineos, Nexans, Nordex, Recticel, Renewi, SAES Getters, Van Lanschot, Zumtobel

8 Decent Work and Economic Growth: ADVA Optical, AIB, Barco, Basware, BFF Bank, Credito Emiliano, Finecobank, Granges, Resurs, Smartcraft, Van Lanschot

9 Industry, Innovation and Infrastructure – Innovation focus: Mersen, Metso Outotec, SAES Getters, Suess Microtec

9 Industry, Innovation and Infrastructure – Infrastructure focus: ADVA Optical, AMG, Befesa, Bekaert, Bystronic, Concentric, Edag, Friedrich Vorwerk, Fugro, Granges, Grenergy Renovables, Jost Werke, Klingelnberg, KSB, Manz, Mersen, Metall Zug, Metso Outotec, Mytilineos, Nexans, NOS, SLM Solutions, Suess Microtec, TKH

11 Sustainable Cities and Communities: Caverion, Concentric, Finecobank, Fjordkraft, Fugro, Granges, hGears, Huscompagniet, Immobel, Kaufman & Broad, KSB, Manz, Mersen, Metall Zug, Nobina, Plastic Omnium, Recticel, SAES Getters, Zumtobel

12 Responsible Consumption and Production: AMG, Antares Vision, Befesa, Bystronic, Amorim, Granges, HelloFresh, Indel, Krones, Metso Outotec, Mytilineos, Renewi, SAES Getters, Verallia

13 Climate Action: Boskalis, Fugro

14 Life Below Water: Fugro

15 Life on Land: Fugro, Origin Enterprises

1 Source: Morningstar Direct, data as at 30 June 2023
2 Source: Berenberg as at 30 June 2023
Refers to the United Nations Sustainable Development Goals. More information on these can be found on the website **https://sdgs.un.org/goals** Stocks listed above are held in the portfolio at 30 June 2023

Chairman's statement

"We are... of the view that moderate inflation and elevated interested rates... are likely to be a persistent feature of the global economy going forward..."

The Chairman of the Board, **Christopher Casey** reports on the year to 30 June 2023

Meyer Burger, 0.5% of the portfolio
Manufacturer of solar cells and solar modules

Chairman's statement

After a challenging year to June 2022 for European small caps where the benchmark[1] fell 17.3% and the NAV of your Company by 21%, the year ended June 2023 has been a welcome improvement, notwithstanding that the challenges of 2022 such as surging inflation, rising interest rates, disrupted energy markets and conflict in Ukraine having persisted. The spectre of recession has hung over the global economy for much of the last year, but it has been far more resilient than the bears have suggested it would be. It seems increasingly probable that a 'soft landing' is achievable as supply chain bottlenecks have begun to clear, relieving inflationary pressure, and the labour market has proved to be robust enough for the consumer to be cushioned from the burden of rising interest rates. Smaller companies are a good indicator of the economic cycle improving and normally rally before the economic data confirms the trend. The fund management team has always preached their valuation discipline and we are optimistic that they will be able to take advantage at this stage of the cycle.

Performance

Despite stock markets that have been extremely volatile and a bias to smaller companies that have, in aggregate, underperformed midcap companies, the net asset value ('NAV') total return performance of the Company for the year ended 30 June 2023 was 16.4%, 6.4% ahead of the benchmark return of 10.0%. The share price total return for the period was 13.6%, ahead of the average of the AIC European Smaller Companies sector, but showing a widening discount against the NAV.

Discount management

The Company's shares have traded at an average discount of 15.1% over the twelve months to 30 June 2023. This is against the backdrop where the investment trust sector as a whole averaged 13.1% for the same period and widened to an average of 15.8% in the subsequent period from July through September. Our discount reflects the fact that smaller European companies remain out of favour with investors, but also suggests that we have more work to do in terms of communicating our unique proposition to investors.

The Board regularly monitors the discount level, though we are of the view that it is not a variable fully in our control. Following regular discussion at Board meetings, we have resolved to practice share buybacks opportunistically when our Fund Manager thinks it will be more accretive to the long-term value creation of the portfolio than other investment opportunities.

Post the financial year-end and after temporarily widening, the discount to NAV narrowed on the back of weakness in equity markets. Given the significant price dislocation in the market reflected by the discount of the investment trust sector as a whole, we have not as yet believed it to be in the interests of all shareholders to repurchase our own shares in such an environment.

Performance Fee

We will be paying a performance fee of £7.2m to the investment manager for the returns achieved over the three-year period to 30 June 2023. To put this into context the Company has delivered an NAV total return outperformance of 26.0%[2] relative to the benchmark over this period. This is nearly double the return of our nearest competitor in the AIC European Smaller Companies sector.

The Board regularly revisits the merit of having a very low base fee alongside the performance fee as part of the arrangements with the investment manager and considers that this approach is beneficial to shareholders over time. This mechanism permits the investment manager to earn a higher fee where excellent performance has been achieved over a three-year period, but reduces significantly should performance be poor.

Dividend

A final dividend of 3.25p (2022: 3.10p) per ordinary share will be put to shareholders for approval at the annual general meeting to be held on 27 November 2023. Together with the interim dividend of 1.45p (2021: 1.25p), this is an increase of 8.0%. The dividend will be paid on 1 December 2023 to shareholders on the register at 3 November 2023. The shares will trade without the dividend on 2 November 2023.

We are confident that the Company will continue to be able to deliver progressive dividend growth. We would like to emphasize to our shareholders that the valuation aware investment style employed by the fund management team has led them to certain high yielding stocks in recent years and the extent of recent dividend growth may not be sustainable as portfolio repositioning occurs. In line with the investment objective, the fund management team's focus continues to be prioritising capital growth.

Succession planning

In keeping with the Board's succession plan, Alexander Mettenheimer retired at the annual general meeting in November 2022. We continue to refresh the Board and engaged recruitment consultants to help with the search to find my replacement. Following successful conclusion of that process, we were pleased to announce the appointment of James Williams on 9 October 2023. He will join the Board with effect from 1 November 2023. He brings with him over 30 years' international business experience, including nearly 20 years in the investment banking industry. He is very familiar with the investment trust sector and financial markets, and

1 Euromoney Smaller European Companies (ex UK) Index up to 30 June 2022, thereafter the MSCI Europe ex UK Small Cap Index
2 Calculated using the Euromoney Smaller European Companies (ex UK) Index for the years ended 30 June 2021 and 2022, and the MSCI Europe ex UK Small Cap Index for the year ended 30 June 2023

Chairman's statement (continued)

has a strong suite of leadership skills. James will offer himself for election by shareholders at the annual general meeting later this year. It is my intention to retire at the conclusion of the annual general meeting in 2024, following a suitable hand-over period.

We have further agreed a timeline for the retirement of Simona Heidempergher, who, at the time of the forthcoming annual general meeting, will have been on the Board for nine years.

We will report to you further on this in due course.

Annual General Meeting

We are pleased to invite shareholders to attend the 33rd Annual General Meeting which will be held at our registered office, 201 Bishopsgate, London, EC2M 3AE on Monday 27 November 2023 at 12.30pm.

The event provides the opportunity for shareholders to meet the directors and the Fund Manager, along with members of his team. The Fund Manager will give his usual presentation on the year under review and will discuss the outlook for the year ahead. The directors and fund management team will also be available to answer questions.

If you are unable to attend in person, you will be able to watch the meeting live via the internet by visiting **www.janushenderson.com/trustslive**. Voting will be held on a poll so we encourage all shareholders to submit their proxy form, or instruct their share dealing platform how they wish their shares to be voted, ahead of the respective deadlines. Voting on a poll means shareholders will have one vote for every share they own and give a clear indication of shareholders' wishes. The results of the poll will be published on the Company's website shortly after the meeting.

Outlook

I have warned of the prospect of inflation since the Annual Report 2020, but the Board does not expect inflation to remain at the high levels we have been experiencing recently. We are, however, of the view that moderate inflation and elevated interest rates, compared to the recent past, are likely to be a persistent feature of the global economy going forward. The dislocations in the global economy between the USA and China appear structural. Supply chain resilience is clearly now a priority of the corporate sector and will alter the disinflationary dynamic of the last twenty years, notwithstanding that China exiting Zero-Covid should help ameliorate short term inflationary pressures. The 'Green Transition' will require substantial capital expenditure that will also be inflationary. Exciting technologies such as Artificial Intelligence will no doubt create some disinflationary pressure, but we doubt it will be as significant as the advent of the internet.

The valuation aware approach employed by the fund management team should be able to flourish in a market that has some very exciting companies trading at extremely low valuations. Whilst Europe doesn't have the global tech titans which have dominated the market in recent years, the plumbing of the new economy has been delivered by smaller companies based in Europe and we are confident that the fund management team can continue to deliver attractive returns for you.

Christopher Casey
Chairman
9 October 2023

Fund Manager’s Report

Ollie Beckett
Fund Manager

Rory Stokes
Deputy Fund Manager

Julia Scheufler
Analyst

Alimak, 1.0% of the portfolio
Developer and manufacturer of vertical access solutions to the construction industry

Fund Manager's report

Introduction

After a disappointing year ended June 2022, where the portfolio lagged the benchmark[1] by 3.7%, the year to June 2023 proved more gratifying, with a total return of 16.4% outperforming the benchmark by 6.4%.

Outperformance over the twelve months to 30 June 2023 was primarily driven by bottom-up stock selection, with Dutch wealth manager **Van Lanschot Kempen** and German pump manufacturer **KSB** adding handsomely to returns. In addition to stock selection, the Company gained from its overweight position in cheap financials in the first half of the financial year where the normalisation of interest rates allowed banks to earn a net interest margin for the first time since the global financial crisis. Our view that valuation matters, especially in the absence of 'free money', was positive for performance. In the first part of 2023 the portfolio benefitted from its exposure to the industrial sector as the highly publicised fear of energy shortages did not come to pass. In the remainder of the financial year, the Company performed reasonably well versus the index despite having a lower average market capitalisation during the periods of small cap underperformance and amid the return of growth outperformance on the back of the hype surrounding Artificial Intelligence.

Since November, equity markets have been largely rangebound, with ongoing fear that higher interest rates to combat the inevitable post-Covid inflation would lead to a recession. Technically, the latter has occurred in some counties like Germany. The good news is that even if recession does come, it will be the most widely anticipated recession ever. We take the view that inflation should drop in the second half of the 2023 calendar year, but that positive inflation and positive interest rates are likely to be part of the new normal.

The geopolitical environment continues to be volatile, with the Russian invasion of Ukraine beginning to look like something of a stalemate, giving investors an excuse to ignore Europe as a region to invest in. However, valuations in Europe now look so cheap compared to the US such that investors are being given considerable reward for running that risk. Some commentators worry about China's ambitions for Taiwan, which we struggle to assess as a risk. Should this occur, it would certainly cause another huge disruption to the semiconductor supply chain as well as adding another appalling conflict to the world. We assume calm heads will prevail.

The portfolio

We invest across the entire corporate lifecycle, with a mix of early-stage growth stocks, sensibly priced structural growth stocks, undervalued cash generative mature names and self-help turnarounds.

We continue to think that many growth stocks in Europe remain far too expensive, but have begun to add a few names that have fallen to reasonable levels. For instance, we have added Dutch-listed food processing equipment manufacturer **Marel** which was punished for being slow to increase prices during the supply chain shock and is now playing catch up. The business remains dominant in its field of meat processing, and we think the margin rebuild will improve the return on capital and lead to a re-rating of the shares. We also opened a position in Danish-listed **NTG Nordic Transport** which is building a global freight forwarding operation. The stock is not well known in the market and suffered from recessionary concerns, allowing us to buy the shares at a very attractive valuation. Despite some terrific performance this year, the equity remains cheap and we think it has scope to deliver far more.

In the year ended June 2022, we did not devote much capital to buying the early-cycle growth names as we believed many lacked profitability and started with expensive valuations. However, many of these names sold off strongly as interest rates rose. We used this opportunity to begin to buy stakes in companies that we believe look like winners of the future. We opened a position in Swedish-listed podcast software and service provider **Acast**. The company is the market leader in Europe and a big challenger in the US; if you are an avid consumer of podcasts, you will have seen its name littered over many of your favourites. Advertising is massively underpenetrated in podcasts versus radio, and we think this will change over the next couple of years. We also added Italian-listed tool maker **Eurogroup Laminations** which is the leading global supplier of high value-add components critical for making electric motors for the automotive industry, an area that has huge structural growth trends underpinning it.

Within the mature names in the portfolio, we have added German-listed electric forklift truck and warehouse automation specialist **Jungheinrich**. The company currently earns cost of capital returns, but its new management team are focused on boosting this. We believe the structural tailwinds in the company's end markets should help them to achieve this and drive a re-rating of the shares. We invested in specialist high performance material producer **Alleima**, which was recently divested from Sandvik. Now that the business is free to emerge from the shadow of its parent, we believe management can boost margins, returns and cash flow in the quarters and years to come.

Among our turnaround names, we added Swedish-listed vertical access solutions (or lifts as they are otherwise known!) **Alimak** for its purchase of a near competitor which we believe could drive a big turnaround in its Façade Access division. We invested in Portuguese bank **Banco Comercial Portugues** as it is improving profitability and the Portuguese economy is one of the best in Europe.

1 Euromoney Smaller European Companies (ex UK) Index for the year ended 30 June 2022, the MSCI Europe ex UK Small Cap Index for the year ended 30 June 2023

Fund Manager's report (continued)

Performance attribution

The Company benefited from its exposure to the industrial and financial sectors in the year to June 2023. Our biggest contributor was Dutch wealth manager **Van Lanschot Kempen**, which is in a unique position to consolidate the Low Countries wealth management industry. **BFF Bank** in Italy was another noticeable contributor as the market has begun to reward its strong return on equity and diligent capital return strategy. In the industrial sector, we benefited from long-term Italian holding **SAES Getters** after it disposed of its medical division at an attractive premium and converted its Savings Shares to Ordinary Shares. Elsewhere, Dutch-listed vision systems producer **TKH** made a sizeable contribution with analysts being far too bearish on the company's prospects in 2023.

Spanish online travel agent **eDreams ODIGEO** contributed to returns after benefitting from a notable recovery in tourism following the pandemic. Dutch-listed specialty metals producer **AMG Critical Materials** gained as its capital expenditure began to bear fruit and the stock market realised the value of its lithium assets. Dutch-listed outsourced customer service company **Majorel** was bid for by competitor Teleperformance, also adding to performance.

Detractors from performance included a combination of last year's winners giving up some performance and certain stock specific mistakes. US-listed **Adtran** (shares in which we received from the acquisition of German tech hardware company ADVA Optical Networking) detracted as the market reopening left too much inventory on its client's balance sheets. Swedish-listed broadcaster of over-the-top media services and owner of many sports rights, **Viaplay**, had a profit warning as its Nordic market slowed sharply and management's growth assumptions proved to be wildly optimistic. We subsequently sold the position. Belgian-listed insulation manufacturer, **Recticel**, suffered weak demand from the construction market and a brutal last-minute renegotiation for the disposal of its Engineered Foams business that hurt the stock significantly. Finally, Swedish-listed legal software and services business **Karnov** mismanaged an equity placing and unnecessarily spooked the market about its balance sheet hurting the shares.

Geographical and sector distribution

Our investment process is fundamentally a bottom-up stock picking approach, and we don't allocate capital to specific sectors or geographies, though we do monitor the overall structure of the portfolio to ensure we are actively managing our risk profile. We do not invest with the benchmark as a reference and are content to run the portfolio with significant divergence from it.

The largest geographic overweight was France where we have found several very cash generative and lowly valued companies. We are also heavily overweight to the Netherlands where we added property developer **CTP**, which dominates the logistics development market in South Eastern Europe and in Germany where we added leading display advertiser **Stroeer**. We remain underweight the relatively more expensive markets such as Sweden, Switzerland and Norway.

At the sector level, we are overweight industrials and consumer discretionary, though we have focused the latter overweight on more robust areas such as travel related verticals with companies such as Irish-listed hotel company **Dalata**, which has had robust trading. We have an overweight in the information technology sector, primarily driven by technology hardware with investments such as Finnish-listed **Detection Technology** that produces scanning and imaging technology for the medical, industrial and security markets.

We are underweight to the health care sector where we struggle to find sensibly priced investments. We remain underweight to the real estate sector, which has benefited the Company in the rising interest rate environment, although we have reduced the underweight position by adding selectively chosen positions such as Swedish-listed **Castellum** that we took the opportunity to buy at an attractive valuation when they raised money to repair their balance sheet. We remain underweight in the consumer staples sector, where we struggle to find many exciting investment opportunities.

Additions and disposals

Other notable additions to the portfolio include Italian truck manufacturer, **Iveco**, which was recently spun out of CNH. The stock is extremely cheap, has a meaningful opportunity to improve margins and has an exciting line in electric buses. We re-initiated a position post a de-rating in German-listed manufacturer of semiconductor equipment, **PVA TePla**, that sells furnaces for producing silicon carbide crystals. Increasingly silicon carbide wafers are replacing pure silicon in end markets such as electric vehicles.

We disposed of our position in Irish-listed bank, **AIB**, after seeing a considerable return as the market recognised the undervaluation and boost of an improved net interest margin environment. We exited our position in Italian bank, **Finecobank**, as we considered the market to have too optimistic a view of their earnings. We disposed of German-listed **Commerzbank** on the concern that the investment was too consensual. This resulted in our meaningful overweight in the financial sector becoming broadly neutral.

We sold our position in Norwegian marine services business **Froy** after it was bid for, Greek renewable energy producer and refiner **Motor Oil**, after earning considerable profit and Swedish-listed manufacturer, **Thule**, as we thought forecasts

Fund Manager's report (continued)

had begun to look too optimistic. We capitulated on our investment in Swedish-listed kitchen maker **Nobia** as we became concerned by the balance sheet after some ill-timed major capital expenditure. Finally, we exited our position in Belgian cinema operator **Kinepolis** as our conviction that audiences would return to the cinemas in the same numbers as pre-pandemic waned.

Currency

The Company is denominated in Sterling, while investing in largely Euro-denominated assets. We do not hedge this currency exposure.

Outlook

Last year we warned that central banks could overreact to inflation by pushing rates too high and into an energy shock. Today, we think that may still be the case. Concerns of too-high-too-soon rates and the resulting recession has created a fear factor that has dissuaded many from investing in European smaller companies.

Our fundamental belief is that there is considerable value to be found in European smaller companies currently, with valuation multiples looking extremely attractive. Much of our investment universe is already priced for a recession. The resilience of labour markets suggest that there is a reasonable chance that the global economy has a 'soft landing'. In such an environment, European smaller companies should be a good area to invest: it is the area of the market that could deliver greater growth and is currently trading at a discount to its more pedestrian larger European counterparts. Throughout, we continue to believe that remaining valuation-aware when seeking out the small cap winners of tomorrow is a key discipline for delivering value for our shareholders.

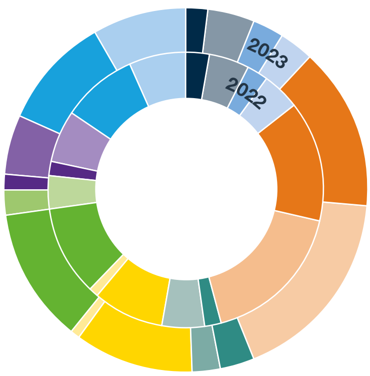
Ollie Beckett, Rory Stokes and Julia Scheufler
9 October 2023

Portfolio Information

Ten largest investments at 30 June 2023

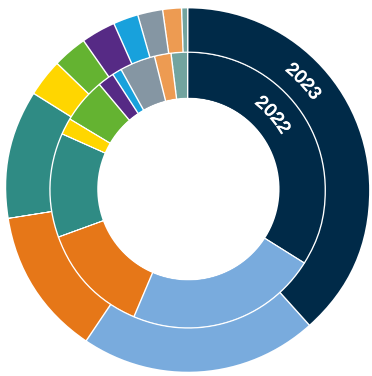
Ranking 2023	Ranking 2022	Company	Principal activities	Geographical area	Valuation 2023 £'000	Percentage of portfolio
1	1	Van Lanschot Kempen	Specialist independent wealth manager that provides private banking, asset management and merchant banking to wealthy individuals and institutions. www.vanlanschot.nl	Netherlands	28,185	3.4
2	2	TKH	Technology company specialising in the development and delivery of systems and networks for the provision of information, telecommunication, electrotechnical engineering and industrial production. www.tkhgroup.com	Netherlands	26,976	3.2
3	17	Mytilineos	Industrial conglomerate operating in the energy and metals industries. www.mytilineos.com	Greece	17,772	2.1
4	3	DFDS	Northern Europe's largest integrated shipping and logistics company. www.dfds.com	Denmark	17,306	2.1
5	5	BFF Bank	Credit management and specialised financial services for health care providers and public administration. www.bffgroup.com	Italy	15,466	1.8
6	6	u-blox	Developer of embedded positioning and wireless communication components and software. www.u-blox.com	Switzerland	14,917	1.8
7	43	SAES Getters	Technology company operating in the metals, vacuum technology, medical, speciality chemicals and packaging sectors. www.saesgetters.com	Italy	14,653	1.7
8	33	KSB	Manufacturer of pumps and valves. www.ksb.com	Germany	13,997	1.7
9	22	Mersen	Designer and manufacturer of electrical circuits and advanced materials for high-tech industries. www.mersen.com	France	13,920	1.7
10	15	Criteo	Online advertising company. www.criteo.com	France	13,087	1.6
					176,279	**21.1**

Geographic exposure



	2023 %	2022 %
Austria	2.0	2.9
Belgium	4.2	4.8
Denmark	2.8	2.4
Finland	3.0	4.6
France	14.6	14.1
Germany	17.4	17.1
Greece	3.2	2.0
Ireland	2.5	4.9
Italy	10.3	8.5
Malta	1.0	1.0
Netherlands	11.9	10.6
Norway	2.3	3.8
Portugal	1.3	1.9
Spain	5.4	6.0
Sweden	10.0	8.8
Switzerland	8.1	6.6

Sector exposure



	2023 %	2022 %
Industrials	38.6	34.1
Consumer Discretionary	20.9	22.5
Financials	13.0	13.1
Technology	11.6	12.0
Basic Materials	3.2	2.1
Utilities	3.1	5.1
Health Care	3.1	2.1
Real Estate	2.3	1.2
Consumer Staples	2.0	4.1
Energy	1.7	2.0
Telecommunications	0.5	1.7

Historical Information

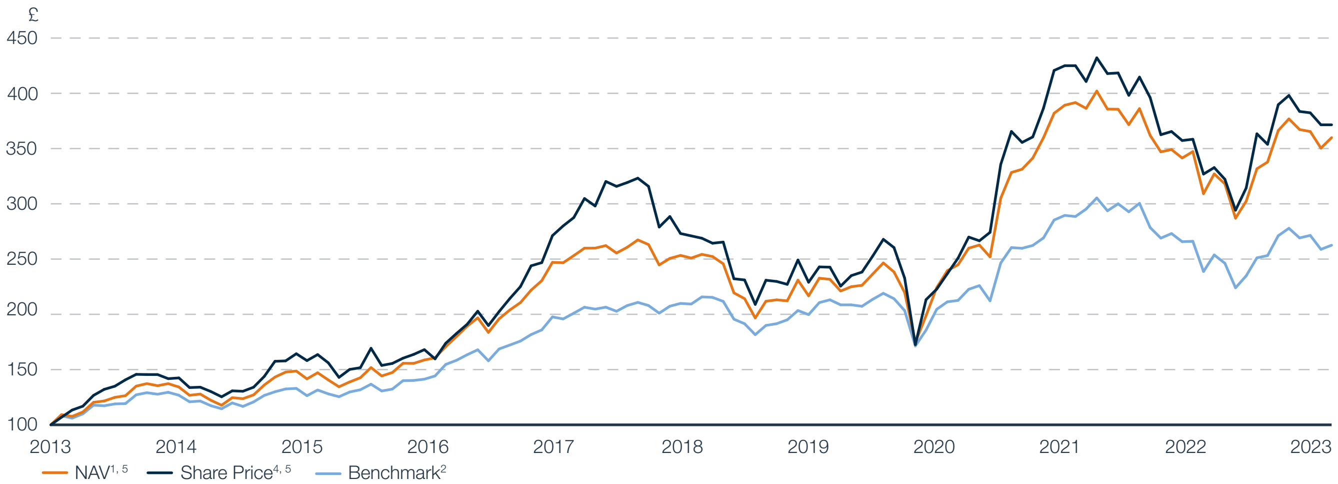
Total return performance to 30 June 2023

(including dividends reinvested and excluding transaction costs)

	1 year %	3 years %	5 years %	10 years %
NAV[1, 5]	16.4	50.3	43.4	259.9
Benchmark[2]	10.0	24.3	25.5	162.6
Average sector NAV[3]	11.2	26.0	31.1	190.3
Share price[4, 5]	13.6	56.9	37.1	271.5
Average sector share price[3, 6]	10.1	27.5	25.8	192.6

Total return performance compared to the benchmark

(assumes the investment of £100 and reinvestment of all dividends)



Financial information

At 30 June	Net assets £'000	NAV per ordinary share[8] p	Closing price per ordinary share[8] p	Discount[5] %	Profit/(loss) for year £'000	Revenue return[8] p	Capital return[8] p	Total return[8] p	Total dividend[8] p	Ongoing charge[5, 7] (AIC formula) %
2014	325,676	81.46	71.72	12.0	83,548	1.39	19.50	20.89	1.15	0.69
2015	337,645	84.45	78.00	7.6	16,565	1.42	2.72	4.14	1.19	0.78
2016	377,683	94.46	77.50	18.0	44,782	1.69	9.51	11.20	1.44	0.79
2017	569,459	143.19	133.88	6.5	199,540	2.14	47.96	50.10	1.81	0.75
2018	574,591	143.34	127.50	11.0	9,936	2.76	(0.27)	2.49	2.38	0.71
2019	521,023	129.98	111.50	14.2	(42,795)	3.01	(13.69)	(10.68)	2.75	0.72
2020	523,374	130.56	105.50	19.2	13,525	1.49	1.88	3.37	2.76	0.73
2021	840,667	209.71	185.63	11.5	328,517	2.59	79.36	81.95	3.13	0.71
2022	652,464	162.76	140.00	14.0	(174,712)	5.16	(48.75)	(43.59)	4.35	0.65
2023	**738,642**	**184.26**	**154.00**	**16.4**	**104,381**	**5.22**	**20.82**	**26.04**	**4.70**	**0.65**

1 Net asset value total return per ordinary share
2 Euromoney Smaller European Companies (ex UK) Index up to 30 June 2022, thereafter the MSCI Europe ex UK Small Cap Index
3 The sector is the AIC European Smaller Companies sector
4 Share price total return using closing price
5 The NAV per share, NAV total return, share price total return, discount and ongoing charge are regarded as Alternative Performance Measures. More information on these can be found on pages 79 and 80
6 Average share price for the AIC European Smaller Companies sector
7 Excludes the performance fee where payable
8 Figures for 2014 to 2021 are restated to take account of the 8:1 share split completed on 13 December 2021

Sources: Morningstar Direct, Janus Henderson Investors

Business model

Purpose

Our purpose is to deliver a long-term sustainable return to shareholders from investing in smaller and medium sized European companies.

Strategy

Our strategy is to offer investors a cost effective investment proposition which provides access to a professionally and actively managed portfolio of investments.

The Company is an investment trust which is a pooled invest vehicle, allowing exposure to a diversified range of assets through a single investment, thus spreading the investment risk. All services are delivered by reputable third-party service providers whose performance is overseen by a Board of Directors (the 'Board'). The Board is comprised entirely of non-executive directors accountable to shareholders, who can remove a director from office where they deem it to be in the interests of the Company. The non-executive directors are independent of the investment manager.

The significant advantages of our business model are its closed-end nature, which enables the Fund Manager to remain fully invested, and the ability to use leverage to increase returns for shareholders.

Values and culture

We aim to be viewed by our shareholders as a sound long-term investment. Alongside delivering attractive returns, we believe our shareholders would expect us to act professionally and with integrity, and to treat their investment with the same care we would our own. Accordingly, we bring these values to our deliberations as a Board and seek to build long-term relationships with like-minded and reputable service providers. In particular, we apply this approach to our investment manager as we regard them as our primary partner in fulfilling our purpose.

Promoting the Company's success

We seek to create long-term sustainable value by following four simple steps:

Buy the right assets: The fund management team maintain a diversified portfolio with strong valuation disciplines. The portfolio comprises investee companies from across the corporate lifecycle, with a mix of early stage growth businesses, sensibly priced quality growth stocks, companies with mature revenue streams and self-help turnaround stories.

Using the right team: The Company outsources its operations to third-party service providers. The Board engages high-calibre, reputable service providers with established track records to deliver the day-to-day operations. Their level of service is monitored on an ongoing basis and their continued appointment formally evaluated at least once a year.

Investment objective

The Company seeks capital growth by investing in smaller and medium sized companies which are quoted, domiciled, listed or have operations in Europe (ex UK).

Investment policy

The following investment ranges apply:

Equities:	80% – 100%
Fixed Income and Cash:	0% – 20%

Smaller and medium sized companies are defined as those whose market capitalisation is equal to or below the largest member of the MSCI Europe ex UK Small Cap Index[1] at the time of investing.

Investments may include shares, securities and related financial instruments, including derivatives. Unquoted investments are permitted with prior Board approval.

The Company maintains a diversified portfolio. The Company will not invest more than 7% of its total assets, calculated as at the time of investment, in any one holding.

The Company can, but normally does not, invest up to 15% of its gross assets in investment companies (including listed investment trusts). The Company will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in UK listed investment companies.

Derivatives

The Company may use financial instruments known as derivatives for the purpose of efficient portfolio management while maintaining a level of risk consistent with the risk profile of the Company.

Gearing

Net gearing (defined as all borrowings less cash balances and investments in cash funds) is limited by the Board to a maximum of 30% of net asset value at the time of investment.

With appropriate Board approval, the Company may, but currently does not, hedge against currency movements.

1 Benchmark with effect from 1 July 2022

With the right approach: The Company is a closed-end investment vehicle, approved as an investment trust under the Corporation Tax Act 2010. By adopting a closed-end structure, we allow the fund management team to take a long-term view when making investments, they can remain fully invested as there are no redemptions to meet and they have the ability to use leverage to increase returns for shareholders. This approach provides a cost-effective mechanism for delivering operations whilst allowing the Company to take advantage of the capital gains treatment afforded to approved investment trusts.

Business model (continued)

Overseen with the right governance: The Company's operations are overseen by a Board of Directors. The Board is accountable to the Company's shareholders and are re-elected by them annually. The directors are independent of the investment manager and are selected based on their business experience and personal attributes in order to bring a balance of skills to the oversight of the Company's operations and to ensure that the investment manager is appropriately challenged on their recommendations.

Engaging with stakeholders (s.172)

We, as directors, have the success of the Company foremost in our minds when making decisions. Decisions are taken with the aim of achieving our purpose and are based on information provided by a range of sources. The impact on stakeholders is assessed as part of our deliberations, although stakeholders may be affected differently.

The table below sets out the primary ways in which we, as your Board, engage with the Company's key stakeholders.

Stakeholder	Engagement
Shareholders and potential investors	Purpose: • Keep investors updated on the Company's performance. • Promote the Company to new shareholders. How we engage: • Daily NAVs and monthly factsheets are published to keep shareholders up to date with the value of the portfolio. • Meetings with the Fund Manager, members of his team and Board members are offered to shareholders and potential shareholders to provide insight into the portfolio. • Information on the Company and video updates from the Fund Manager are made available on the website and via social media channels with a view to keeping shareholders informed on the positioning of the portfolio. • The half-year report and annual report are published to keep shareholders informed on the Company's financial performance, its governance framework and any current issues. • The Fund Manager provides a presentation to shareholders and analysts following publication of the annual report with a view to providing insight on the Company's performance. • The investment manager and corporate broker run a programme of engagement with wealth managers and other professional investors. Outcome: • Shareholders are informed and there is regular demand for the Company's shares.
Investment manager	Purpose: • Maintain a close working relationship with the investment manager as this is key to achieving the Company's investment objective and promoting the Company to investors. How we engage: • The fund management team are invited to each Board meeting to provide an update on the performance of the portfolio and to keep the directors in touch with their view on the markets and positioning of the portfolio. • The investment manager provides data on the key performance indicators at each meeting enabling the directors to measure performance. • The investment manager demonstrates compliance with the parameters of the investment mandate at each meeting and provides access to senior managers in the Operational Risk and Internal Audit teams enabling the directors to assess the effectiveness of internal controls in operation. • The heads of the investment trusts Sales and Marketing teams are invited to provide regular presentations to the Board on how the Company is promoted to professional and retail investors. Outcome: • The Board is confident that the Company's assets are well managed and managed in line with the investment objective, and within the parameters established by the Board. • The Board has a good understanding of how the Company is perceived in the market and whether the investment objective remains relevant in the prevailing market conditions.

Business model (continued)

Stakeholder	Engagement
Service providers • Corporate broker • Custodian • Depositary • Fund administrator • Registrar	Purpose: • The Company's day-to-day operations run smoothly. • The directors are aware of any issues which may arise and can ensure that suitable action is taken to address them. How we engage: • The Board receives regular reporting and presentations from its key third-party service providers throughout the year. • Designated staff at the investment manager engage regularly with all third-party service providers through meetings and written reporting, and keep the Board updated with any areas of concern. • The Management Engagement Committee annually reviews the level of services delivered by each service provider and the terms on which they are engaged to ensure that these remain in line with market practice. Outcome: • The Board is confident in its selection of third-party service providers and maintains good oversight of the Company's operations.
Investee companies and the environment	Purpose: • The Board has an understanding of the Fund Manager's approach to incorporating environmental, social and governance matters in stock selection. How we engage: • The fund management team has regular engagement with the management teams of investee companies enabling them to assess performance and governance arrangements. • The shares held in the Company's portfolio are voted at general meetings and appropriate engagement undertaken with investee companies where management proposals are not supported. Outcome: • The Company is a responsible investor.

Board decision making

The Board is mindful of acting in the best interests of shareholders as a whole and has regard to other stakeholders as relevant. The Board takes into consideration the Company's purpose, investment objective and policy as well as the interests of the Company's stakeholders when discussing matters and making decisions. In addition to regular, detailed discussions about the Company's investment portfolio, strategy and performance, the following are examples of discussions held and decisions made by the Board during the financial year ended 30 June 2023:

- The Board considered the **global macroeconomic** environment, and specifically, conditions in Europe taking account of inflation, the ongoing conflict in Ukraine, the renewed focus on the diversity of supply chains and US/China tensions. The Board examined the implications of these, and other, areas when considering the possible impact on the value of the portfolio.
- The Board, with the assistance of the Audit Committee, **assessed the size of the interim and final dividends** based on the strength of the Company's Revenue Statement and Balance Sheet.
- The Board considered the appropriateness of **purchasing the Company's own shares** taking account of the discount, the AIC European Smaller Companies sector average discount and the discount of the investment trust sector as a whole. No shares were repurchased following discussions.
- The Board considered the use of **gearing**, as well as the increased cost of utlising the bank overdraft, concluding it remained in the interests of all shareholders to maintain this facility.

Assessing our viability

In keeping with provisions of the Code of Corporate Governance issued by the Association of Investment Companies (the 'AIC Code'), the Board has assessed the prospects of the Company over a period longer than the 12 months required by the going concern provision.

We consider the Company's viability over a three-year period as we believe this is a reasonable timeframe reflecting the longer term investment horizon for the portfolio, but acknowledges the inherent shorter term uncertainties in equity markets.

As part of the assessment, we have considered the Company's financial position, as well as its ability to liquidate the portfolio and meet expenses as they fall due. The following aspects formed part of our assessment:

- the closed-end nature of the Company which continued to be focused on long-term returns and does not need to account for redemptions;

Business model (continued)

- a robust assessment of the principal risks and uncertainties facing the Company, including the challenges posed by climate change, which concluded that no materially adverse issues had been identified;
- the nature of the portfolio remained diverse and comprised a wide range of stocks which are traded on major international exchanges meaning that, in normal market conditions, three quarters of the portfolio could be liquidated in ten days;
- the level of the Company's revenue reserves and the size of the bank overdraft facility; and
- the expenses incurred by the Company, which are predictable and modest in comparison with the assets and the fact that there are no capital commitments currently foreseen which would alter that position.

As well as considering the principal risks and financial position of the Company, the Board has made the following assumptions:

- investors will continue to wish to have exposure to investing in European small cap companies;
- investors will continue to invest in closed-end funds;
- the Company's performance will continue to be satisfactory; and
- the Company will continue to have access to adequate capital when required.

Based on the results of the viability assessment, we have a reasonable expectation that the Company will be able to continue its operations and meet its expenses and liabilities as they fall due for our assessment period of three years. Forecasting over a longer period is imprecise given the nature of the portfolio. We will revisit this assessment annually and provide shareholders with an update on our view in the annual report.

Fee arrangements

The Company is an Alternative Investment Fund and has appointed Janus Henderson Fund Management UK Limited ('JHFMUKL') to act as its Alternative Investment Fund Manager ('AIFM'). JHFMUKL delegates investment management services to Janus Henderson Investors UK Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA') and are part of the Janus Henderson group of companies. References to 'Janus Henderson Investors' or 'JHI' refer to the services provided to the Company by the investment manager's group.

The investment manager is engaged under the terms of an agreement effective from 22 July 2014. The agreement is terminable on six months' notice. The fund management team is led by Ollie Beckett, who has been in place since 1 July 2011.

The base management fee is 0.55% of net assets up to £800m and 0.45% thereafter. Fees are charged quarterly in arrears. The investment manager may also be eligible to receive a performance related fee. Performance is measured against, and expressed relative to, the benchmark. With effect from 1 July 2022, the benchmark became the MSCI Europe ex UK Small Cap Index. For the purposes of calculating the performance fee, the new benchmark is being introduced on a rolling basis. Performance has therefore been measured using the MSCI Europe ex UK Small Cap Index for the year ended 30 June 2023 and the Euromoney Smaller European Companies (ex UK) Index for each of the two prior years.

Performance of the Company and the benchmark is measured on a NAV total return (with gross income reinvested) basis and is measured over a rolling three-year period. In any given year in which a performance fee is payable, the rate is 15% of the positive difference between the average annual NAV total return and the average annual total return of the benchmark. The upper limit on the total fee, including the base fee and any performance fee, for any given accounting year is 2.0% of the NAV of the Company as at the last day of the relevant calculation period. A performance hurdle over the benchmark of 1.0% must be reached before any performance fee can be earned and is excluded from the performance fee itself should one be payable. Performance is measured solely on the basis of NAV total return relative to the total return of the benchmark index. No account is taken of whether the NAV grows or shrinks in absolute terms.

The investment manager, and its subsidiaries, provide accounting, company secretarial, sales, marketing and general administrative services to the Company. Some of the administrative and accounting services are carried out, on behalf of the investment manager, by BNP Paribas.

Corporate Secretary

The Corporate Secretary, Janus Henderson Secretarial Services UK Limited, is a subsidiary of Janus Henderson Investors with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the Corporate Secretary and JHI, particularly when dealing with any conflicts or issues between the Company and JHI. Correspondence from shareholders addressed to the Chairman or the Board received at the investment manager's offices is forwarded to the Chairman, or addressee, in line with the established procedures in place.

Pages 17 to 23 form part of this Strategic Report.

On behalf of the Board

Daniel Burgess
Chairman of the Audit Committee
9 October 2023

Managing risks

Principal risks

Investing, by its nature, carries inherent risk. The Board, with the assistance of the investment manager, carries out a robust assessment of the principal and emerging risks and uncertainties facing the Company which could threaten the business model and future performance, solvency and liquidity of the portfolio. A matrix of these risks, along with the steps taken to mitigate them, is maintained and is kept under regular review. The mitigating measures include a schedule of investment limits and restrictions within which the Fund Manager must operate.

The principal risks which have been identified and the steps we have taken to mitigate these are set out in the table below. We do not consider these risks to have changed during the period.

Principal risk	Mitigating measures
Investment strategy and objective The investment objective or policy is not appropriate in the prevailing market or sought by investors, leading to a wide discount and hostile shareholders. Investment mandate limits established by the Board are inappropriate leading to out-of-scope investments which may negatively impact shareholder value. Poor investment performance over an extended period of time, driven by either external (political uncertainty, financial shock, pandemic, climate change, etc.) or internal factors (poor stock selection, poor management of gearing, loss of key members of the fund management team, etc.), leading to shareholders voting to wind up the Company.	The investment manager periodically reviews the investment objective and policy in line with best practice and taking account of investor appetites. The Board receives regular updates on professional and retail investor activity from the investment manager, and reports from the corporate broker, to inform themselves of investor sentiment and how the Company is perceived in the market. From time to time, research may be undertaken by a third-party consultant to specifically ascertain the views of retail investors. The Board reviews compliance with the investment limits at each meeting. The Board considers the Key Performance Indicators ('KPIs') at each meeting and reviews the investment manager's approach to environmental, social and governance matters. The fund management team incorporates environmental, social and governance considerations in investment selection and maintains a diversified portfolio with a view to spreading risk. Consideration is given to the possible impact of climate change on the value of the portfolio as part of the Company's overall risk assessment.
Operational Failure of, disruption to or inadequate service levels provided by principal third-party service providers leading to a loss of shareholder value or reputational damage. This includes cyber security risks which may compromise the integrity of data and the effective operation of third-party service providers.	The Board engages reputable third-party service providers and formally evaluates their performance, and terms of engagement, at least annually. The Audit Committee assesses the effectiveness of internal controls in place at the Company's key third-party service providers through review of their ISAE 3402 reports, quarterly internal control reports from the investment manager and monthly reporting on compliance with the investment limits established by the Board.
Legal and regulatory Loss of investment trust status, breach of the Companies Act 2006, Listing Rules, Prospectus and/or Disclosure Guidance and Transparency Rules or the Alternative Fund Managers Directive and/or legal action brought against the Company and/or directors and/or the investment manager leading to a decrease in shareholder value and reputational damage.	The Board engages reputable third-party service providers and formally evaluates their performance, and terms of appointment, at least annually. The Audit Committee assesses the effectiveness of internal controls in place at the Company's key third-party service providers through review of their ISAE 3402 reports and, in respect of the investment manager's investment trust operations, reporting from the investment manager's internal audit function. The investment manager's Compliance function has reporting obligations under AIFMD, with any non-compliance being captured in the investment manager's quarterly internal control reporting to the Board.

Managing risks (continued)

Principal risk	Mitigating measures
Financial Market, liquidity and/or credit risk, inappropriate valuation of assets or poor capital management leading to a loss of shareholder value.	The Board determines the investment limits and monitors compliance with these at each meeting. The directors review the portfolio liquidity at each meeting and periodically consider the appropriateness of hedging the portfolio against currency risk. The Board reviews the portfolio valuation at each meeting. Investment transactions are carried out by a large number of approved brokers whose credit standard is periodically reviewed and limits are set on the amount that may be due from any one broker, cash is only held with the custodian/depositary or reputable banks. The Board monitors the broad structure of the Company's capital including the need to buy back or allot ordinary shares and the extent to which revenue in excess of that which is required to be distributed, should be retained.

Responsible investment

As stewards, we take a responsible approach to investment, which encapsulates environmental, social and governance ('ESG') matters. The closed-end nature of the Company makes it ideal for long-term investing and provides our fund management team with the opportunity to meaningfully engage investee companies as they grow and develop their strategies. We recognise that there is a lack of consistency in ESG implementation and articulation across the industry. The purpose of this report is therefore to provide shareholders with a clear understanding of our approach.

As an investment company, we are not required to report against the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'). Many of these recommendations are relevant to 'trading' companies, but we recognise that we have a look-through responsibility in assessing how our investee companies approach ESG matters.

The Financial Conduct Authority has now published regulations that require the Company's investment manager to report against TCFD both at the AIFM and product level by 2024 so more information in this respect should be available to shareholders in the future.

Stewardship

Our approach to responsible investment is twofold comprising:

- the actions we, as a Board, take in terms of our composition and diversity, as well as the values we set for ourselves and the service providers we choose to appoint; and
- the actions our appointed investment manager takes as part of their approach for responsibly and sustainably managing the Company's portfolio in line the investment objective set by our shareholders.

As a Board, we are aware of the expectations placed on companies in terms of their governance responsibilities, and we are even more keenly aware that applying such expectations as a matter of rote may cause more harm than good, especially taking account of the nature and stage of corporate development that many of our small-cap investee companies may find themselves at. We therefore take a pragmatic approach and believe in engaging with companies in the first instance rather than simply divesting or excluding investment opportunities.

Our investment manager takes a similar approach: they believe their ability to have the greatest impact as active managers is through engagement with the companies in which they invest on our behalf. The exception to this, which we fully support, is their firm wide ban on investing in the manufacture of cluster munitions, anti-personnel mines, chemical and biological weapons.

The environment

The fund management team engages with portfolio companies on environmental matters where they arise. As an investment trust, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Company's indirect impact occurs through its investments. For these reasons, the Board considers that the Company is a low-energy user under the Streamlined Energy & Carbon Reporting regulations ('SECR') and is therefore not required to disclose energy and carbon information.

Our investment manager recognises the importance of managing its operational activities in a sustainable way and minimising any adverse impact on the environment. In 2021, JHI reached its three-year target to reduce its carbon footprint by 15% per full-time employee ('FTE') from 2018 levels. In 2022, using guidance from the Science-Based Target Initiative, JHI set ambitious new five-year reduction targets:

- reduction target of 29.4% in Scope 1 (fuel) and Scope 2 (electricity) emissions;
- reduction target of 17.5% in Scope 3 (business travel, freight, paper, water, waste) emissions; and
- reduction target of 17.5% on water and waste consumption by FTEs.

In addition to this, JHI has maintained a CarbonNetural® certification since 2007 and offsets all its operational Scope 1, Scope 2 and Scope 3 operational emissions each year. Through this process, JHI has invested in a variety of offset projects around the world, delivering financial support to essential renewable energy, forestry and resource conservation projects that support reductions in greenhouse gas emissions. All projects JHI supports have been classified as 'additional' by an independent third party, meaning they would not happen without the sale of carbon credits.

JHI discloses its carbon emissions annually through regulatory and voluntary reporting frameworks, including SECR and the Carbon Disclosure Project, as well as in its 2022 Annual Report and 2022 Impact Report.

Investment approach

The fund management team employ a bottom-up stock selection approach in constructing the portfolio and continuously monitor the performance of and risks associated with each holding. The approach is designed to deliver the capital growth set out in the investment objective and outperformance against the benchmark.

The process involves screening potential investment opportunities, meeting with management teams to understand their businesses and supplementing this with internal and external research.

Understanding the business, the threats to its success, its competitive position and quality of the management team in the context of the valuation of the company are key to determining whether an investment is made and also the size of the investment.

Responsible investment (continued)

For businesses in each phase of the company life cycle, the fund management team has clear attributes and valuation metrics for measuring success and seeking out mispriced securities. This is coupled with a sell discipline to ensure underperforming companies are removed from the portfolio.

	Early cycle	Quality growth	Mature	Turnaround
Attributes looking for	• Growth • Clear strategy • Operating leverage	• High ROIC • Top line growth • Margin sustainability • 'Moat' barrier to entry	• Steady ROIC • Cash generation • Equity cheap relative to assets	• Management cost cutting • Margins • Asset disposal
Valuation metrics	• EV/Sales	• PE • EV/EBIT • EV/IC	• EV/IC • EV/EBIT • FCF yield	• EV/IC • EV/EBIT • FCF yield
Sell discipline	• Disappointing growth • Narrative drift • Management sales • No operating leverage	• Margin progression • Incoherent M&A • Deteriorating accounting quality	• Valuation • Competitive environment • Technology shift	• No margin progression • Rapid sales deterioration
	ESG assessment			

EV = Enterprise value, IC = Invested capital, EBIT = Earnings before interest and tax, FCF = Free cash flow, ROIC = Return on invested capital, PE = Price to earnings

ESG considerations

ESG is an integral part of our fund management team's investment philosophy. It is integrated into the investment thesis on all bottom-up stock decisions when material to the investment case. Their core belief is that companies scoring well on ESG and sustainability will warrant a valuation premium over time. The fund management team seeks to determine what a fair premium for those assets should be and invests when stock can be bought at an attractive valuation. Negative screening is not employed, but instead the fund management team looks to find companies that can improve.

An assessment of ESG considerations is made for each stock during the research process when deemed material. The focus on the analysis is based on the rate of change rather than existing scores. It is therefore crucial to understand what procedures and initiatives a company is putting in place to improve ESG practices.

Headline ratings from extremal providers may be a useful starting point, but do not offer a complete picture on a standalone basis. They are often backward looking with data integrity issues for smaller companies. External providers face significant difficulties in aligning subjective topics contained within the ESG arena with attempts at an objective scoring system used to compare stocks. As a result, there is often a high level of dispersion in ratings depending on the agency. Furthermore, certain issues within ESG can be in conflict, for instance many European smaller companies have excellent environmental and social benefits, which are balanced by governance concerns through issues such as high levels of family ownership. These, along with other factors, drive the fund management team's focus upon improvements in ESG practices and disclosures, in addition to the existing status.

ESG integration

Good governance behaviour is a necessary but not sufficient input in investment decisions. On the remaining issues the fund management team takes a pragmatic approach focusing on the areas that are most material. The fund management team specifically looks into the track record and execution ability of management, as well as their attitudes towards public market investors and the allocation of capital. The governance and incentive structures which management operate are key elements in corporate value creation. This can be particularly important when looking at turnaround situations where management teams are often new to the business and their actions are integral to the investment thesis.

Constructive and respectful attitudes to public market shareholders and the protection of minority interests are also very important. The responsiveness of a company towards shareholder concerns is a crucial signal about the ability to unlock value and distribute it to all of a company's owners.

Beyond researching a company's governance arrangements, our fund management team's research looks at several other sources of quantitative and qualitative information. Environmental and social factors are an important part of that in combination with fundamental research into the cash generative potential of a business. Increasingly environmental and social factors are proving to be pivotal to the emergence of structural themes, such as electromobility or renewable energy, making them too important to ignore.

Responsible investment (continued)

Engagement

Company engagement forms a key part of the fund management team's assessment of an investment. As custodians of our shareholders' capital, it is important to hold management, as well as non-executive directors, to account for decisions that impact the value of that capital. ESG issues are a driver in this respect, along with other fundamental value drivers.

Our fund management team make a point of meeting or calling the senior management of the Company's investee companies at least once a year and usually more often. Topics discussed include business strategy, the competitive environment, compensation, capital allocation, risks, management succession, environmental and social issues. When meeting companies, the fund management team are well prepared, know what information they wish to acquire and submit meeting notes to a central database afterwards. Meetings seldom involve simply going through management's pre-prepared presentation. When appropriate, the fund management team will participate in governance focused meetings jointly with the investment manager's Governance and Responsible Investment team. Company engagement around general meetings is used to inform voting decisions.

The fund management team are particularly sensitive to how the company treats the opinions and concerns of its owners and will consider escalating engagement if they feel the rights of our shareholders are being disregarded. If concerns are not addressed in engagement, the team will be prepared to dispose of portfolio holdings.

The fund management team makes a point of encouraging investee companies to interact with the ESG rating bodies to understand disclosure best practice with a view to improving the market understanding of their ESG strengths.

Voting

We believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. We have tasked our investment manager with considering how best to vote the rights attached to the shares in the Company's portfolio. This enables us to utilise the expertise of their Governance and Responsible Investment team in assessing engagement by investee companies and the appropriateness of any resolutions which shareholders may be asked to approve.

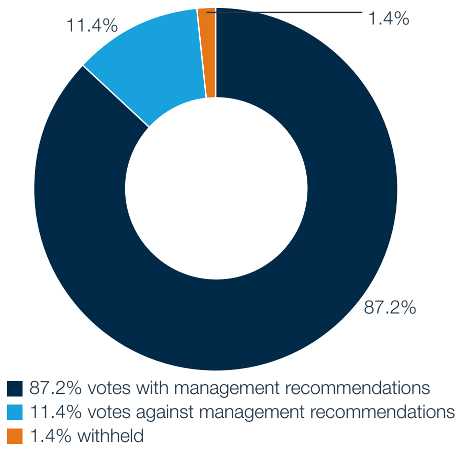
The Board retains oversight of the process by receiving reporting at each meeting indicating how the Company's shares have been voted and where support for management recommendations has not been warranted, and by reviewing our investment manager's ESG Investment Policy and Stewardship Policy at least annually.

Voting decisions are guided by the best interests of the investee companies' shareholders and made in consultation with the fund management team, who have an in-depth understanding of the respective company's operations.

In the period under review, we voted at 89.9% of the general meetings held by investee companies. The only proposals not voted on are those which would have resulted in share-blocking. This is where voting would have restricted the ability to trade the shares in advance of the meeting.

A total of 87.2% of resolutions proposed by management were supported. However, in respect of 11.4% of the resolutions proposed, support was not warranted and, following discussion between the fund management team and the Governance and Responsible Investment team, the shares were voted against the passing of the resolution. For the most part, these resolutions related to the remuneration and independence of directors, undue dilution of shareholders' interests or the issue of shares on a pre-emptive basis.

Voting at general meetings



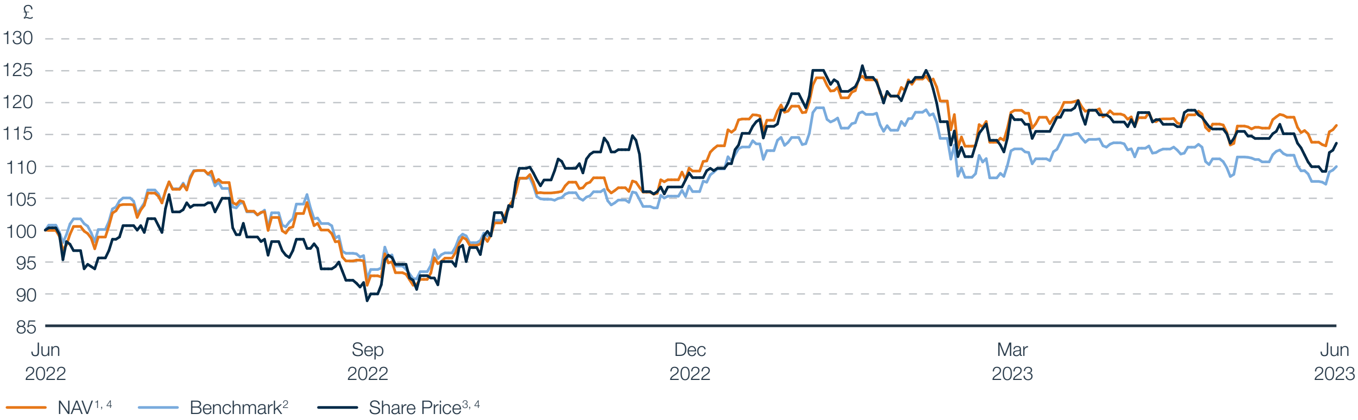
Key Performance Indicators

Measuring our performance

In order to measure the success of the Company in meeting its investment objective and to evaluate the performance of the Fund Manager, the directors take into account a number of Key Performance Indicators ('KPIs').

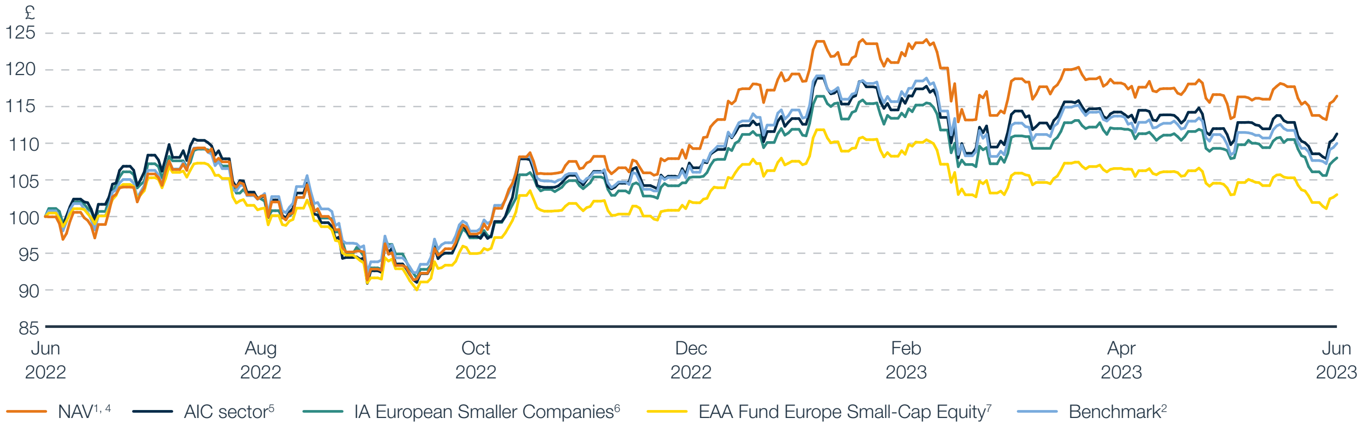
NAV and share price total return compared to the benchmark (rebased to 100)

1 year



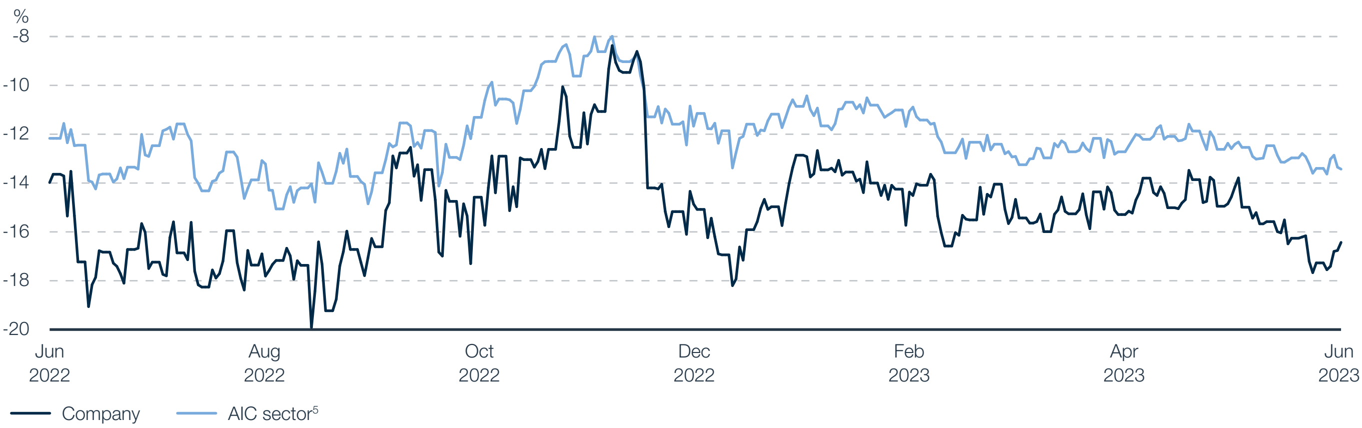
NAV total return performance compared to the AIC[5] and open end sectors (rebased to 100)

1 year



Premium/discount[4] compared to the AIC sector average

1 year

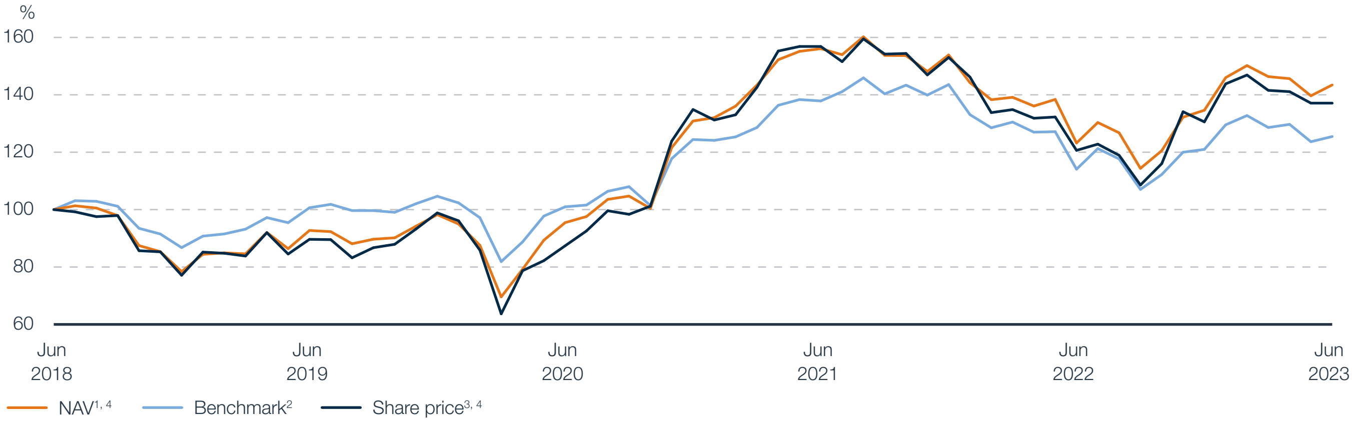


1 NAV total return assuming the reinvestment of all dividends
2 Euromoney Smaller European Companies (ex UK) Index up to 30 June 2022, MSCI Europe ex UK Small Cap Index thereafter
3 Share price total return using closing price
4 NAV total return, share price total return and the discount are regarded as Alternative Performance Measures. More information on these can be found on pages 79 and 80

Key Performance Indicators (continued)

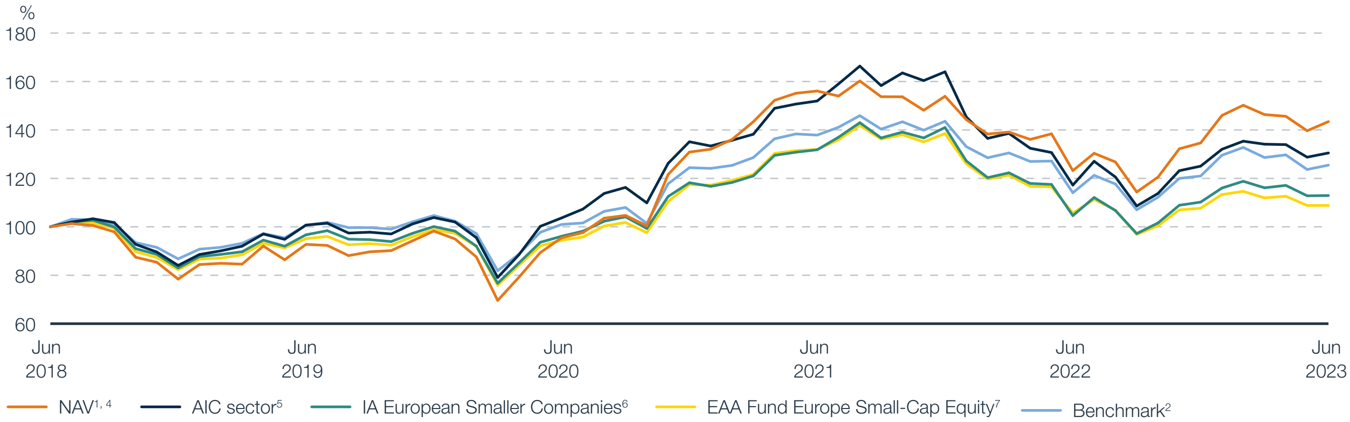
NAV and share price total return compared to the benchmark (rebased to 100)

5 year



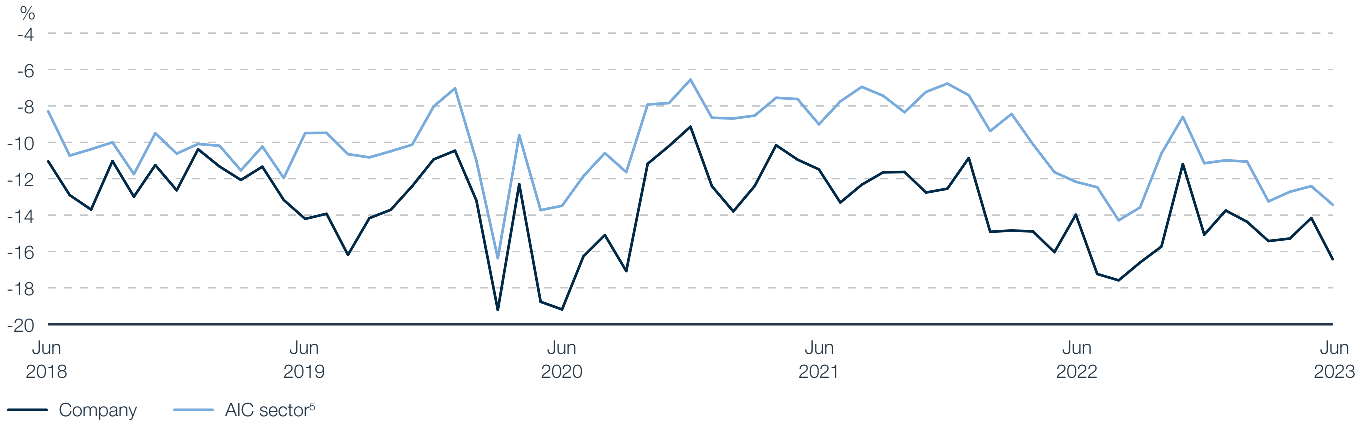
NAV total return performance compared to the AIC[5] and open end sectors (rebased to 100)

5 year



Premium/discount compared to the AIC sector average

5 year



5 The sector is the AIC European Smaller Companies sector
6 Investment Association sector
7 Morningstar category

Governance

Stroeer, 0.9% of the portfolio
Digital multi-channel media company and provider of out-of-home and online advertising

Board of Directors
The right balance of skills and experience

Christopher Casey

Position:
Chairman of the Board (from 25 November 2019); formerly the Chairman of the Audit Committee (1 March 2010 – 25 November 2019)

Date of appointment:
1 March 2010

Career and background
Christopher was a partner of KPMG LLP and its predecessor firms from 1992. He specialised in audit and transactions advisory services. He retired from KPMG LLP in February 2010 and has been a non-executive director of operating and investment companies in various jurisdictions since that time.

Skills and expertise
Christopher has extensive accounting, auditing, corporate governance and listed companies experience.

External appointments
He is a non-executive director and the Audit Committee Chairman of Mobius Investment Trust plc, CQS Natural Resources High Yield Trust plc and Life Settlement Assets PLC.

Daniel (Dan) Burgess

Position:
Chairman of the Audit Committee

Date of appointment:
25 November 2019

Career and background
Dan was a partner at KPMG LLP for twenty-three years. He initially led the statutory audits of a number of large public limited companies and public interest entities before specialising in due diligence and regulatory services on mergers and acquisitions and capital market transactions.

Skills and experience
He has significant accounting, auditing, corporate governance and listed companies experience.

External appointments
Dan is the Chairman of the Audit Committee of JPMorgan Emerging Europe, Middle East and Africa Securities plc.

Ann Grevelius

Position:
Independent non-executive director

Date of appointment:
23 September 2019

Career and background
Ann has more than thirty years´ experience in the asset management sector and has been active in the venture capital industry as partner and senior advisor at GP Bullhound, a technology advisory and investment firm. She has held positions as Chief Investment Officer and Global Head of Investment Strategy at SEB Wealth Management and prior to that, Ann was head of Swedish and Nordic Equities at SEB Investment Management and Handelsbanken Asset Management.

Skills and experience
Ann has extensive asset management experience and her input gives greater insight on market sentiment and conditions in continental Europe.

External appointments
She is Chairman and co-founder of Optise AB, a fintech start-up within digital asset management and holds a number of non-executive directorships including OX2 AB, a renewable energy company and Aktia Bank PLC, the Finnish asset manager, bank and life insurer. She is Chairman of the Investment Committee at the Swedish Foundation for Strategic Research.

Christopher Casey

Daniel (Dan) Burgess

Ann Grevelius

Board of Directors (continued)

Simona Heidempergher

Position:
Senior Independent Director (from 29 July 2021) and Chairman of the Nomination and Remuneration Committee (from 27 July 2022)

Date of appointment:
1 September 2014

Career and background

Simona is a Managing Director of Merifin Capital, a privately owned European investment company with offices in Europe, Asia and the USA, which has successfully invested in traditional and alternative asset classes for more than 30 years.

Skills and experience

Simona has a wealth of asset management experience and her knowledge of European markets provides useful context to the investment background.

External appointments

She is a Managing Director of Merifin Capital, chair of the board of directors of the Stramongate Group, a Luxembourg public company, and a director of Hansa Investment Company Limited which is listed on the London Stock Exchange. Simona sits on the advisory boards of various limited partnerships and is a member of the Investment Committee of Compagnia San Paolo.

James Williams

Position:
Independent non-executive director

Date of appointment:
James will join the Board on 1 November 2023

Career and background

James has over 30 years' international business experience, including nearly 20 years in the investment banking industry, having held senior roles in Asia and Europe at ING Barings, ABN AMRO and Commerzbank. Following his departure from Commerzbank, he became a partner at Saginaw Capital LLP until 2008.

Skills and experience

James has many years' international business experience in Asia and Europe, and a strong knowledge of the investment trust sector and financial markets.

External appointments

James is the non-executive Chairman of Schroder AsiaPacific Fund plc and a director of Net Zero One Limited.

Simona Heidempergher

James Williams

Corporate Governance Report

Governance codes

The Board is pleased to report to shareholders on how the Company has applied the principles of the Code of Corporate Governance published by the Association of Investment Companies.

The Company maintains a premium listing on the London Stock Exchange and is therefore required to report on how the principles of the UK Corporate Governance Code (the 'UK Code') have been applied. Being an investment company, a number of the provisions of the UK Code are not applicable as the Company has no executive directors or internal operations. Consequently, the Board considers the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies (the 'AIC Code'). The AIC Code addresses the principles set out in the UK Code as well as additional recommendations on issues that are of specific relevance to investment companies. The Financial Reporting Council has endorsed the AIC Code and confirmed that, by following it, the boards of investment companies should meet their obligations in relation to the Listing Rules and Disclosure Guidance and Transparency Rules.

Copies of the AIC Code and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**. The AIC Code published in January 2019 includes an explanation of how it adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

Statement of compliance

The Board has considered the principles of the AIC Code and confirms that it has complied with these throughout the reporting period.

The Company has no executive directors so does not consider executive remuneration. As a fully managed investment company, the Company has no internal operations so does not maintain an internal audit function, although the Audit Committee regularly considers the need for it.

Overview

The Board is comprised entirely of non-executive directors and has constituted three principal committees: the Audit Committee, the Management Engagement Committee and the Nomination and Remuneration Committee. The Board has also constituted an Insider Committee which meets when required to assist the Board in discharging its responsibilities under the Market Abuse Regulations.

The terms of reference for each Committee are kept under regular review by the Board and are available on the Company's website **www.europeansmallercompaniestrust.com**.

The Board engages third-party service providers to deliver the operations of the Company. Janus Henderson Investors has been appointed to manage the investment portfolio and is the Company's Alternative Investment Fund Manager. The investment manager also provides the day-to-day accounting, company secretarial, administrative, sales and marketing activities. The Company has appointed a depositary, which in turn appoints the custodian, who is responsible for the safe custody of the Company's assets. The Company has appointed a registrar to maintain the Register of Members and assist shareholders with queries in respect of their holdings. The Company entered into each of these principal contracts after full and proper consideration of the quality and cost of the services offered, including the operation of their internal control environments. The Board and its committees maintain oversight of third-party service providers through regular and ad hoc reporting, as well as ongoing monitoring by the investment manager.

Board leadership and purpose

The Board is responsible for providing leadership and setting the tone from the top in terms of the Company's culture and values. The Board appoints all third-party service providers and monitors their performance throughout the year. The directors formally evaluate the quality of the service provided by each third-party service provider and consider the appropriateness of the terms of their engagement at least annually. The Board aligns the Company's risk appetite with the investment objective set by shareholders and establishes investment restrictions accordingly. The Board keeps under regular review the risks faced by the Company and assesses the effectiveness of internal controls put in place to mitigate these.

As well as making the strategic decisions regarding the Company's objectives and establishing the risk management framework, the Board's purpose is to provide independent oversight of the operations delivered by the Company's third-party service providers and to challenge the decisions and recommendations made by them, particularly the investment manager.

The Board does this by meeting formally at least five times a year, with additional Board or committee meetings arranged when required. The directors have regular contact with the Fund Manager and other employees of the investment manager in connection with the delivery of company secretarial, sales, marketing and other administrative services.

The Board has a formal schedule of matters specifically reserved for its decision, which includes setting strategy and providing oversight of performance against agreed measures. It approves any changes to the structure and capital arrangements for the Company, has oversight of financial reporting and assesses the effectiveness of the internal control framework. The Board approves communications with shareholders, the appointment of new directors and oversees corporate governance matters.

Corporate Governance Report (continued)

Each meeting follows an agenda agreed with the Chairman and includes a review of the Company's investment performance, financial position, compliance with the investment parameters and a review of notable changes to the share register, along with any sales and marketing activities undertaken. This reporting enables the Board to ensure that control is maintained over the Company's affairs.

The investment manager ensures that the directors receive relevant management, regulatory and financial information. Employees of the investment manager attend each Board meeting enabling the directors to probe further on matters of concern.

The Chairman is able to attend meetings of all the chairmen of the investment companies managed by JHI which provides a forum to discuss industry matters.

The directors have access to the advice and services of the Corporate Secretary through its designated representative who is responsible for ensuring that Board and committee procedures are followed. The proceedings of all Board and committee meetings are minuted, with any particular concerns raised by the directors appropriately recorded. The Board and the investment manager operate in a supportive, co-operative and open environment.

The Company has a procedure for directors to take independent professional advice at the expense of the Company in the furtherance of their duties. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

Division of responsibilities

Role	Primary responsibilities
Shareholders/ investors	The Company's shareholders are responsible for: • approving the Company's investment objective and policy; • making decisions regarding changes to the Company's constitution; • electing and re-electing directors to the Board, or removing them from office if deemed appropriate; and • determining the overall limit for directors' remuneration.
Chairman	The Chairman of the Board is responsible for: • leading and managing Board business and ensuring the timely flow of information from service providers to the Board. He facilitates open, honest and constructive debate among directors; • leading the Board in developing succession planning; • leading the Board in determining its governance framework, culture and values; • representing the Company, alongside the Fund Manager, externally at business, and community level; and • managing the relationship with the investment manager.
Senior Independent Director	The senior independent director: • acts as a sounding board to the Chairman; • serves as an intermediary for the other directors and shareholders; • is responsible for leading the performance evaluation of the Chairman.
Independent non-executive directors	The independent non-executive directors are responsible for: • providing constructive and effective challenge, especially to the decisions of the investment manager; • scrutinising and holding to account the performance of the – fund management team in meeting the investment objective; – Investment manager in the promotion of the Company and day-to-day smooth operations of the Company's business; and • providing strategic guidance and offering specialist advice.

Corporate Governance Report (continued)

Role	Primary responsibilities
Committee chairs	The Committee chairs are responsible for: • the leadership and governance of their committee; • maintaining the relationships with specialist service providers delivering services within the remit of their committees; • reporting on the activities of their committee to the Board; and • seeking approval from the Board for the responsibilities set out in their respective terms of reference.
Investment manager	The investment manager is the Company's appointed Alternative Investment Fund Manager and is responsible for: • promoting the Company's investment proposition to professional and retail investors; • making the necessary reporting to the FCA regarding the Company's status as an Alternative Investment Fund; • providing accounting, company secretarial and other administrative services to the Company ensuring compliance with the applicable statutory and regulatory provisions; and • coordinating the delivery of services provided by the Company's other third-party service providers.
Fund Manager	The Fund Manager and his team are responsible for: • selecting the stocks held within the portfolio; • diversification and risk management through stock selection and size of investment; • determining the volume and timing of acquisitions and disposals; and • determining the frequency and level of gearing within the overall limits set by the Board.

Board composition

At the date of this report, the Board comprises four non-executive directors. Their background and business experience is set out on pages 25 and 26. On 9 October 2023, the Board announced the appointment of James Williams as a director with effect from 1 November 2023. His business experience is set out on page 26.

Appointment, tenure and retirement of directors

The Board may appoint directors at any time during the year. Any director so appointed stands for election by shareholders at the next annual general meeting. Directors are generally expected to serve two terms of three years, which may be extended to a third term, and occasionally beyond, at the discretion of the Board and subject to satisfactory performance evaluation and annual re-election by shareholders.

All directors stand for re-election by shareholders annually in keeping with the provisions of the AIC Code. The articles permit shareholders to remove a director before the end of their term by passing an ordinary resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

Chairman's tenure

Given the entirely non-executive nature of the Board and the fact that the Chairman may not be appointed as such at the time of their initial appointment as a director, the Chairman's tenure may be longer where this is considered by the Board to be in the best interests of the Company. As with all directors, the continuing appointment of the Chairman is subject to satisfactory performance evaluation, annual re-election by shareholders and may be further subject to the particular circumstances of the Company at the time they intend to retire from the Board. The directors are cognisant of the benefits of regularly refreshing Board membership and seek to do so while retaining a balance of knowledge of the Company and the relationship with the investment manager.

Directors' independence

The independence of the directors is determined with reference to the AIC Code and is reviewed by the Nomination and Remuneration Committee at least annually. The Committee considers each of the director's other commitments, as well as their tenure and any connections they may have with the investment manager or other key service providers. Following completion of the evaluation in July 2023 the Committee concluded that all directors continued to be independent in character and judgement.

Christopher Casey has been a director for over nine years and Simona Heidempergher will have been a director for nine years by the time of the annual general meeting in 2023. The other directors consider that both directors are, and have been, independent since their appointment. Independence stems from the ability to make decisions that conflict with the interest of the investment manager and this is a function of confidence, integrity and judgement. The Board is firmly of the view that length of service does not impair a director's ability to act independently, but that the longer perspective adds value to the deliberations of the Board, especially in light of the Company's business model and the entirely non-executive nature of the Board.

Corporate Governance Report (continued)

Diversity

The Board supports the principle of boardroom diversity, of which gender and ethnicity are two aspects. A third, important aspect given the Company's objective, is the presence of Europe-based directors on the Board. Their input at meetings allows the Board to stay in touch with sentiment on the Continent.

The Company's policy is that the Board should comprise directors with a diverse range of skills, knowledge and experience and that all appointments should be made on merit, against objective criteria. The objective of the policy is to have a broad range of approaches, backgrounds, skills, knowledge and experience present on the Board. Diversity of perspectives and backgrounds is therefore a key consideration in any director search process. Alongside this, the Board will not discriminate on the grounds of age, gender, personal background, sexual orientation, disability or socio-economic background in considering the appointment of directors.

The FCA's Listing Rules require companies to report against the following 3 diversity targets:

- at least 40% of individuals on the board are women;
- at least one senior board position is held by a woman;
- at least one individual on the board is from a minority ethnic background.

At the date of this report, the Board complies with targets one and two with 50% of the Board being female and the role of the Senior Independent Director being held by a woman. The Board does not currently meet the ethnic diversity target due to a lack of candidates with suitable experience of the sector and those candidates with experience, quickly becoming overboarded.

Gender diversity	Number of Board members	% of the Board	Number of senior positions on the Board[1]
Men	2	50	1
Women	2	50	1
Ethnic diversity			
White British or other White (including minority white groups	4	100	2
Other	–	–	–

1 As a fully managed investment company, the Company does not have a CEO or CFO. Accordingly, only the roles of chair and senior independent director are applicable to this disclosure

Directors' conflicts of interest

The articles permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company. The directors may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate.

Any situational conflicts which are considered, and authorised, are recorded in the minutes. These are reviewed by the Nomination and Remuneration Committee at least annually.

Directors' induction and ongoing training

Newly appointed directors are offered a bespoke induction programme which covers the legal and regulatory framework for investment companies and the operations of the investment manager, including the compliance and risk management frameworks, accounting, sales and marketing, and other administrative services.

Directors are provided with information on the Company's policies, regulatory and statutory requirements affecting the Company, as well as changes to the directors' responsibilities as they arise.

Directors are encouraged to attend external training and industry seminars, and may do so at the expense of the Company.

Directors' time commitment

The Board expects directors to be able to devote sufficient time to meet the demands of the business. Directors should attend all scheduled meetings except when unforeseen and serious circumstances arise at short notice. The Board expects directors to be able to make themselves available at reasonably short notice to consider any ad hoc matters that may arise.

Directors' other commitments are considered as part of the candidate selection process for new appointments and annually as part of the overall performance evaluation of each director.

The table below sets out individual directors' meeting attendance for the period under review. All directors attended the 2022 Annual General Meeting.

	Board	AC	N&RC	MEC
Number of meetings	5	2	1	1
Christopher Casey	5/5	2/2	1/1	1/1
Daniel Burgess	5/5	2/2	1/1	1/1
Ann Grevelius	5/5	2/2	1/1	1/1
Simona Heidempergher	5/5	2/2	1/1	1/1
Alexander Mettenheimer[1]	3/3	1/1	1/1	1/1

1 Retired as a director on 28 November 2022

AC – Audit Committee; N&RC – Nomination and Remuneration Committee; MEC – Management Engagement Committee

Corporate Governance Report (continued)

Succession planning

To be effective the Board must maintain a balance of skills and experience, and seek to refresh these on a regular basis to ensure that the Board's oversight of the investment manager's activities remains robust.

As the Board is comprised entirely of non-executive directors and all operations are outsourced, ensuring a suitable balance of skill and experience includes retaining a detailed knowledge of the Board's deliberations and decisions over the long term, which may mean some directors remain on the Board for longer than nine years. The Board considers its membership annually following individual performance evaluation and when recommending directors to shareholders for re-election. The Board maintains a succession plan which remains subject to the challenges facing the Company at the time these plans are implemented and the skills the Board believes it requires to ensure the safeguarding of shareholders' assets.

Performance evaluation

The Board has established a three year cycle for evaluating its performance, with questionnaires used for years one and two, followed by individual discussions with directors led by the Chairman in year three. The process allows the Board to consider its performance, that of its committees and individual directors not only on an annual basis, but in achieving strategic aims. The Board will supplement the evaluation cycle with an externally facilitated review which will be carried out over the course of the coming year.

The evaluation this year concluded that the Board continued to operate effectively and that the presence of European based directors on the Board remained beneficial. The evaluation specifically assessed the time which individual directors were able to commit to Board business and, based on meeting attendance including to address ad hoc matters, concluded that all directors were able to devote the time required to fulfil their duties.

Risk management and internal control

Framework of control

The Board has responsibility for determining the Company's overall risk appetite, establishing internal controls to ensure operation within that appetite and for reviewing the effectiveness of the internal controls in place.

The Board has established an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Company. The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The principal and emerging risks faced by the Company and mitigating measures in place, are documented in the Risk Profile and Register which is kept under regular review by the Audit Committee. The diagram on page 33 illustrates the Company's framework.

The system was in operation throughout the year and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its third-party service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute assurance against material misstatement or loss.

The key components of the internal control framework include:

- clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and in compliance with the criteria at each meeting;
- regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- contractual agreements with the investment manager and all other third-party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually;
- the review of internal controls at the investment manager and other third-party service providers. The Board receives quarterly reporting from the investment manager and depositary, and reviews assurance reports on the effectiveness of the control environments at the Company's key service providers; and
- review of additional reporting provided by:
  - the investment manager's Operational Risk team on the control environment in operation at the investment manager and their view of the control environments in place at the third-party service providers used by the Company; and
  - the investment manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 June 2023 and is satisfied that it has not identified or been advised of any failings or weaknesses that have been determined as significant.

Internal audit function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and ensure that financial information used within the business, or published, is reliable.

Corporate Governance Report (continued)

The Company is an investment company, has no employees or premises and delegates all operational activities to third-party service providers, principally among them, the investment manager. The Board places reliance on the Company's framework of internal control and the Audit Committee's view on reporting received from specific second and third line of defence teams at the investment manager.

The investment manager's Operational Risk team support the Audit Committee in considering the independently audited reports on the effectiveness of internal controls in place at the Company's third-party service providers. The investment manager's Internal Audit function provides regular reporting to the Board on the operations of the investment manager and presents at least annually to the Audit Committee.

Given the level of independent review attached to reporting on the effectiveness of internal controls at third-party service providers and the access the Audit Committee has to the investment manager's Internal Audit department, the Board, on the recommendation of the Audit Committee, has concluded that it is not necessary at the present time for the Company to have its own internal audit function.

By order of the Board

Janus Henderson Secretarial Services UK Limited
Corporate Secretary
9 October 2023

Corporate Governance Report (continued)

Framework of Internal Controls

How the system of internal control operates

The Board appoints third-party service providers to undertake the Company's operational activities. It maintains oversight of these providers throughout the year by receiving regular reporting on their activities.

The Company's principal third-party service providers are the investment manager (JHI); the depositary/custodian (HSBC) and the accountants (BNP Paribas).

In respect of its principal providers, the Board receives quarterly reporting on compliance with the control environment and assesses the effectiveness of the control environment through review of the assurance reports from each organisation. This reporting is supplemented by the view of the investment manager's Operational Risk team regarding the control environments in operation at the service providers.

The Company's secondary providers report regularly to the Board. A failing in their services is deemed to have a minimal impact on the Company's value and therefore less stringent reporting is required.

The Management Engagement Committee formally evaluates the performance and service delivery of all third-party service providers at least annually.

The Audit Committee evaluates the performance of the statutory auditor on completion of each audit cycle.

Board of Directors

(comprised entirely of non-executive directors)

Ernst & Young LLP
(Statutory Auditor)

Principal third-party service providers

The directors

- receive regular reporting at meetings;
- review the assurance report produced by each organisation;
- receive additional reporting on the control environment from the investment manager's Operational Risk team;
- receive reporting from the investment manager's Internal Audit team on areas relevant to investment trusts; and
- formally evaluate their performance on an annual basis

Janus Henderson
(Investment management, company secretarial, sales, marketing, PR and administration)

Reporting
- Investment performance update at each meeting
- Investment Limits and Restrictions (monthly)
- Internal Control Report (quarterly)
- Effectiveness of control environment (annually)

HSBC
(Depositary/custodian)

Reporting
- Depositary's Report (quarterly)
- Presentation from the depositary and custodian (annually)
- Effectiveness of control environment (semi-annually)

BNP Paribas
(Fund administration and accounting services engaged by the investment manager)

Reporting
- Balance sheet
- Liquidity and gearing
- Income forecasts
- Portfolio valuation
- Portfolio transactions
- Portfolio attribution
- Cross holdings
- Effectiveness of control environment (annually)

Secondary third-party service providers

The directors

- receive regular reporting on their activities at meetings; and
- formally evaluate their performance on an annual basis

Equiniti
(Registrar)

KPMG
(EU withholding tax)

Winterflood
(Corporate broker)

Edison/Kepler
(Market research)

Audit Committee Report

Role

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of the external auditor.

Membership

All directors are members except the Chairman of the Board. The Chairman is invited and usually attends as permitted.

The Board is satisfied that at least one member has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

Meetings

The Committee meets at least twice a year. The Company's auditors, the Fund Manager and the investment manager's Financial Reporting Manager are invited to attend meetings of the Committee on a regular basis. Other representatives of the investment manager and BNP Paribas may also be invited to attend if deemed necessary by the Committee.

Responsibilities

In discharging its duties over the course of the year, the Committee considered:

- the Company's annual report and half-year financial statements, the appropriateness of the accounting policies applied and the use of the going concern basis for their preparation;
- the assessment of the principal and emerging risks facing the Company and the long-term viability statement in light of these risks;
- the areas of judgement in the financial statements and the performance fee calculation;
- the overall approach to paying dividends and the appropriate level of dividend to be paid in respect of the year ended 30 June 2023;
- the appointment and evaluation of the effectiveness and objectivity of the auditor, and determining their remuneration;
- agreeing the nature and scope of the statutory audit and reviewing the auditor's findings;
- monitoring and evaluating the effectiveness of the Company's system of internal control and assessing the need for a separate internal audit function;
- the policy on the provision of non-audit services by the auditor and the auditor's independence; and
- the whistleblowing arrangements in place at the investment manager enabling staff to raise concerns about possible improprieties in confidence.

Effectiveness of the external audit

The Committee's process for evaluating the effectiveness of the external audit comprises two components; consideration is given to the findings of the FRC's Audit Quality Inspection Report and a post-audit assessment is carried out, led by the Committee Chairman.

The auditor is able to present and discuss the findings of the latest Audit Quality Inspection Report and report on the progress made by the firm in terms of addressing the areas identified for improvement in the prior year's report. In assessing the effectiveness of the audit process, the Committee Chairman invites views from the directors, the Fund Manager and other members of the investment manager's staff in assessing the robustness of the audit, level of challenge offered by the audit team, the quality of the audit team and timeliness of delivering the tasks required for the audit and reporting to the Committee.

Following completion of the assessment, the Committee remained satisfied with the effectiveness of the audit provided by Ernst & Young LLP ('EY') and therefore recommended their continuing appointment to the Board. The auditor has indicated their willingness to continue in office. Accordingly, resolutions re-appointing EY as the auditor to the Company and authorising the directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

Appointment and tenure of the auditor

Regulations currently in force require the Company to tender the statutory audit every ten years and rotate audit firms every 20 years. EY was appointed as the auditor in 2017 following a formal tender process and presented their first report in respect of the year ended 30 June 2018. In keeping with audit partner rotation regulations, Mathew Price completed his five-year tenure last year. This is the first year the new audit partner, Mike Gaylor, has been in place. Subject to the audit remaining effective and the continuing agreement from shareholders on the appointment of the auditor, the Committee envisages carrying out an audit tender process towards the end of the current audit partner's tenure.

Auditor's independence

The Committee monitors the auditor's independence through three aspects of its work; the approval of a policy regulating the non-audit services that may be provided by the auditor to the Company, assessing the appropriateness of the fees paid to the auditors and by reviewing the information and assurances provided by the auditors on their compliance with the relevant ethical standards. EY has confirmed that all of its partners and staff involved with the audit were independent of any links to the Company, and that these individuals had complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standards.

Audit Committee Report (continued)

Significant issues

In relation to the annual report for the year ended 30 June 2023 the following significant issues were considered by the Committee:

Significant issue	How the Committee addressed the issue
Valuation and ownership of investments	The directors have appointed the investment manager, who outsources some of the administration and accounting services to BNP Paribas, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, the investment manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third-party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records. The Board monitors controls and significant movements in the portfolio by reviewing reports regularly at Board meetings.
Recognition of income	Income received has been accounted for in line with the Company's accounting policies. The Board reviews revenue forecasts in support of the Company's future dividends at each meeting, as well as the allocation between revenue and capital for special dividends.
Investment Trust status	The Committee reviews the investment manager's procedures for complying with relevant regulations so as to ensure that the Company maintains its investment trust status and regularly seeks confirmation of compliance with the relevant regulations.
Calculation of performance fee	The Committee reviews the calculation of the performance fee to ensure consistency with the application of the methodology.

Policy on the provision of non-audit services

The Committee has approved, and keeps under regular review, the policy on the provision of non-audit services by the auditor. The policy sets out that the Company's auditor will not be considered for non-audit work where this is prohibited by the current regulations and where it appears to affect their independence and objectivity. In addition, the provision of any non-audit services by the auditor is not permitted to exceed 70% of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period to which the cap applies. Such services require approval in advance by the Audit Committee, or Audit Committee Chairman, following due consideration of the proposed services.

Since the appointment of EY in 2017, the auditor has not provided any non-audit services to the Company.

Daniel Burgess
Chairman of the Audit Committee
9 October 2023

Management Engagement Committee Report

Role

The Management Engagement Committee is responsible for formally evaluating the overall performance of the investment manager and other third-party service providers engaged by the Company.

Membership

The Committee is chaired by the Chairman of the Board. All of the independent non-executive directors are members of the Committee.

Meetings

The Committee meets at least once a year.

Responsibilities

In discharging its duties over the course of the year, the Committee considered:

- the investment performance of the Company, taking account of the benchmark and performance of competitors in the closed-end and open ended sectors, the share price, level of discount and gearing;
- the quality and experience of the team involved in managing all aspects of the Company's business;
- the fee structures of its closed-end competitors and other, similar sized investment companies, as well as open ended alternatives;
- the key clauses of the investment management agreement, how the investment manager had fulfilled these and whether these continued to be appropriate; and
- the performance and fees of the Company's other third-party service providers, including the brokers, depositary, registrar, research providers and legal counsel.

Re-appointment of the investment manager

Following completion of its reviews, the Committee concluded that the continued appointment of the incumbent investment manager remained in the best interests of the Company and the shareholders, and therefore recommended to the Board the re-appointment of JHI for a further year.

Christopher Casey
Chairman
9 October 2023

Nomination and Remuneration Committee Report

Role

The Nomination and Remuneration Committee is responsible for ensuring Board composition remains balanced, a transparent approach is used in the appointment of directors and that appropriate plans are in place for succession planning. The Committee further considers the overall policy and approach to the remuneration of the non-executive directors and makes recommendations to the Board on the level of remuneration for individual roles.

Membership

The Committee is chaired by the Senior Independent Director. All of the independent non-executive directors are members of the Committee.

Meetings

The Committee meets at least once a year to consider the composition of the Board, succession planning, to review the outcome of the Board evaluation and to consider the remuneration of individual directors. The Committee meets more frequently when the recruitment process for new directors is underway.

Responsibilities

In discharging its duties over the course of the year, the Committee considered:

Nomination

- the composition of the Board and each of its committees, taking account of the skills, experience and knowledge of each director and whether the diversity of these continued to contribute to the success of the Company;
- the outcomes of the Board performance evaluation with a view as to whether adjustments should be made to the number of directors or knowledge and skills represented on the Board;
- the tenure of each of the directors, giving consideration as to whether the Board retained a sufficient balance of length of service without becoming complacent;
- the independence of the directors taking account of the guidelines established by the AIC Code as well as the directors' other commitments;
- the time commitment of the directors and whether this had been sufficient over the course of the year;
- succession planning for appointments to the Board taking account of the tenure of the current directors and recommendations of the AIC Code; and
- the performance and contribution of the directors standing for re-election at the 2023 Annual General Meeting.

Remuneration

- the Company's remuneration policy with a view to ensuring this continued to reflect market practice and enable the Company to attract and retain an appropriate calibre of director; and
- the individual remuneration of the Chairman, Chairman of the Audit Committee and other directors, making appropriate recommendations to the Board based on their findings.

Directors for re-election

Taking account of the performance of individual directors as part of the overall effectiveness evaluation of the Board, the Committee considered whether the Board's support of directors standing for re-election at the upcoming annual general meeting was warranted.

Following conclusion of the evaluation this year, the Committee recommended that all directors standing for re-election should be supported. The evaluation demonstrated that the directors continued to bring their knowledge and experience to bear in making decisions regarding the Company and could commit additional time at short notice when required.

Directors' remuneration

The Committee gave consideration to the individual level of directors' remuneration taking account of the increasing responsibilities borne by directors and the fees paid to directors of similar sized investment companies.

Having considered the matters outlined above, and so as to ensure the Company was able to attract and retain an appropriate calibre of individual on the Board, the Committee made a recommendation to the Board regarding changes to directors fees. The outcome is set out in the Directors' Remuneration Report on page 39.

Recruitment

As part of the Board's ongoing succession planning, the recruitment for a chairman designate was initiated during the course of the year. The Committee determined that any new director should bring strong investment management experience to the Board along with a thorough understanding of the investment trust sector.

Following a review of specialist recruitment agencies, Cornforth Consulting ('Cornforth') was appointed to assist the Committee in the search. No open advertising was used as the Committee believes that targeted recruitment is the optimal way of recruiting. Cornforth do not provide any other services to the Company.

Nomination and Remuneration Committee Report (continued)

The Committee considered the long list of candidates prepared by Cornforth. The preferred candidates were invited for interviews with the directors. Candidates were evaluated based on merit, business experience paying attention to the skills that the directors wished to retain on the Board, and cognitive and personal strengths. The candidates' other commitments were also considered as part of the process, with a view to ensuring sufficient time could be devoted to the Company's business.

Following conclusion of the overall process the Committee was pleased to recommend the appointment of James Williams to the Board. His appointment will take effect from 1 November 2023.

Simona Heidempergher
Chair of the Nomination and Remuneration Committee
9 October 2023

Directors' Remuneration Report

Remuneration Policy

The Remuneration Policy (the 'Policy') sets out the principles applied in the remuneration of the Company's directors. The Policy has been in place since 1 July 2013 and was last approved by shareholders at the annual general meeting on 23 November 2020. A resolution to approve the Policy will therefore be put to shareholders at the forthcoming annual general meeting.

The Board's approach is that fees payable to the directors should:

- reflect the time spent by them on the Company's affairs;
- reflect the responsibilities borne by them as directors;
- be sufficient to promote the long-term success of the Company; and
- not exceed the aggregate limit set out in the articles of association (currently £250,000).

Directors are remunerated in the form of fees which are payable quarterly in arrears. No director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place. The directors may be reimbursed for all reasonable and properly documented expenses incurred in the performance of their duties. The level of remuneration paid to each director is reviewed annually, although such review will not necessarily result in a change to the fee.

The Policy, irrespective of changes, is put to shareholders at intervals of not more than three years.

Shareholders' views

Any feedback from shareholders on the fees paid to directors is taken into account by the Board when reviewing remuneration levels.

Letters of Appointment

All directors are non-executive and are appointed under a Letter of Appointment, which is an engagement for services and not a contract for employment. The appointment may be terminated at any time by written notice with no compensation payable.

Recruitment principles

All directors, including any new appointments to the Board, are paid at the same rate. The Chairman of the Board and Chairman of the Audit Committee are paid a higher fee in recognition of their additional responsibilities.

Annual Report on Implementation

The Directors' Remuneration Report (the 'Report') is prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). A resolution to approve this Report will be put to shareholders at the annual general meeting to be held on 27 November 2023.

The Company's auditor is required to report on certain information contained within this report. Where information set out below has been audited it is indicated as such.

All of the directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for an illustrative representation of the level of remuneration that could be received by each individual director. All relevant information is disclosed within this Report in an appropriate format.

Directors' fees

The current fees for specific responsibilities are set out in the table below.

Role	From 1 July 2023	**At 30 June 2023**	At 30 June 2022
Chairman	£49,600	£48,136	£44,000
Chairman of the Audit Committee	£39,650	£38,497	£35,190
Director	£35,000	£33,968	£31,050

The Senior Independent Director does not receive an additional fee

Directors' interests in shares (audited)

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year under review are set out in the table below.

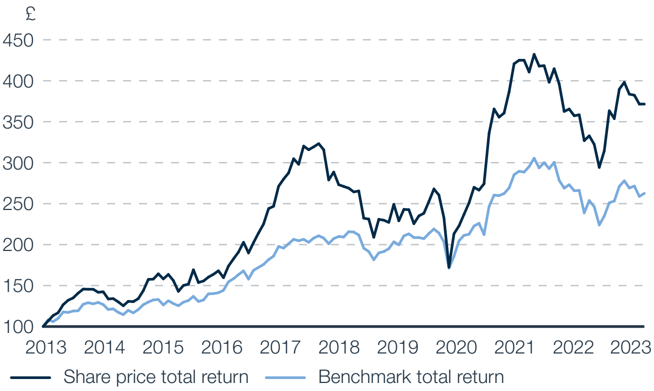
Director	**30 June 2023**	**1 July 2022**
Christopher Casey	48,000	48,000
Daniel Burgess	32,000	16,000
Ann Grevelius	6,000	–
Simona Heidempergher	12,800	12,800
Alexander Mettenheimer[1]	n/a	16,000

1 Retired as a director on 28 November 2022

Directors' Remuneration Report (continued)

Total return performance over ten years

The graph illustrates the Company's share price total return performance compared with that of the benchmark over a ten-year period. The analysis assumes £100 invested on 30 June 2013 with all dividends reinvested.



Annual percentage change

The table below sets out the annual percentage change in directors fees for the three years to 30 June 2023, as well as the increased approved for the current financial year.

Director	From 1 July 2023 %	30 June 2023 %	30 June 2022 %	30 June 2021 %	30 June 2020 %
Christopher Casey	3.0	9.4	15.8	4.4	21.3
Daniel Burgess	3.0	9.4	3.5	0.0	n/a
Ann Grevelius	3.0	9.4	3.5	0.0	n/a
Simon Heidempergher	3.0	9.4	3.5	0.0	15.4
Alexander Mettenheimer[1]	n/a	n/a	3.5	0.0	15.4

1 retired as a director on 28 November 2022

Relative importance of spend on pay

The table below sets out the total level of directors' remuneration compared to the distributions paid to shareholders by way of dividends. There were no other significant distributions or uses of the Company's profit which would assist in the understanding of relative importance of spend on pay.

	Year ended 30 June 2023 £	Year ended 30 June 2022 £	Year ended 30 June 2023 % change	Year ended 30 June 2022 % change
Total remuneration paid to directors[1]	181,018	187,801	-3.6	-2.5
Dividends paid on ordinary shares	18,239,457	13,429,050	35.8	19.6

1 Changes will fluctuate due to the number of directors in any one year

Directors' remuneration (audited)

The remuneration paid to the directors serving during the years ended 30 June 2023 and 2022 is set out in the table below.

Director	Year ended 30 June 2023 Total salary and fees £	Year ended 30 June 2023 Total expenses and taxable benefits £	Year ended 30 June 2023 Total £	Year ended 30 June 2022 Total salary and fees £	Year ended 30 June 2022 Total expenses and taxable benefits £	Year ended 30 June 2022 Total £
Christopher Casey[1]	48,136	6,826	54,962	44,000	–	44,000
Daniel Burgess[2]	38,497	255	38,752	35,190	–	35,190
Ann Grevelius	33,968	2,085	36,053	31,050	896	31,946
Simona Heidempergher	33,968	495	34,463	31,050	368	31,418
Alexander Mettenheimer[3]	13,938	2,850	16,788	31,050	1,372	32,422
Andrew Martin Smith[4]	–	–	–	12,825	–	12,825
Total	168,507	12,511	181,018	185,165	2,636	187,801

Notes:
The table above omits other columns set out in the relevant Regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made.
1 Chairman. Highest paid director. Figure includes expenses incurred from 2019 to 2023
2 Chairman of the Audit Committee
3 Retired as a director on 28 November 2022
4 Retired as a director on 29 November 2021

Directors' Remuneration Report (continued)

Statement of voting at annual general meeting

Shareholders have a binding vote on the Company's remuneration policy every three years and vote to receive the Remuneration Report each year. The table below sets out the votes received in respect of the last time each such resolution was proposed.

Resolution	For (incl discretionary)	% of votes[1]	Against	% of votes	Withheld
Remuneration Policy (last voted on 23 November 2020)[2]	10,729,929	99.4	58,796	0.6	13,274
Remuneration Report (last voted on 28 November 2022)	194,387,476	99.8	376,085	0.2	606,314

1 The percentage of votes excludes votes withheld
2 The Company undertook an 8:1 share split in December 2021 meaning the number of shares in issue was eight times lower

The Company's Remuneration Policy will be put to shareholders for consideration at the forthcoming annual general meeting.

Simona Heidempergher
Chair of the Nomination and Remuneration Committee
9 October 2023

Directors' Report

The directors present their report and the Company's audited financial statements for the year ended 30 June 2023.

The Corporate Governance Report, committee reports and Additional Information on pages 27 to 38 and 76 to 83, form part of the Directors' Report.

Share capital

The Company has a single class of shares being the ordinary shares of 1.5625p each. At 30 June 2023, the Company's paid up share capital consisted of 400,867,176 ordinary shares of 1.5625p each, with voting rights totalling the same.

At the annual general meeting held on 28 November 2022, shareholders authorised the directors to allot up to 20,043,359 ordinary shares (5% of the issued share capital at the date of the resolution) and to repurchase up to 60,089,990 (14.99% of the issued share capital at the date of the resolution). Neither authority has been used in the year ended 30 June 2023. The authorities to allot and repurchase shares will expire at the earlier of 15 months from the date of the passing of the resolution or the next annual general meeting. Directors will be seeking to renew the authority to allot and repurchase shares at the upcoming annual general meeting.

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no restrictions on voting, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holding of ordinary shares.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company at 30 June 2023 in accordance with the Disclosure Guidance and Transparency Rules were as follows:

	% of voting rights
Allspring Global Investments Holdings LLC	15.0
City of London Investment Management Company Limited	5.1

On 17 July 2023, City of London Investment Management Company Limited notified a decrease in their holding from 5.1% to 4.8%.

Borrowings

The Company has a secured multicurrency overdraft arrangement with HSBC Bank plc that allows it to borrow up to the lesser of £160 million and 25% of custody assets as and when required. At 30 June 2023, £94.0m (2022: £68.8m) of the facility was drawn down.

Directors' insurance and indemnification

Directors' and officers' liability insurance cover is in place which indemnifies the directors against certain liabilities arising from carrying out their duties. The Company's articles and the provisions of English law permit a qualifying third party provision indemnity to be provided to directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising from their positions as directors, in which they are acquitted or judgement is given in their favour by the Court. The Company has granted such an indemnity to each director to the extent permitted by law in respect of the liabilities that may attach to them in their capacity as directors of the Company.

Related party transactions

The Company's transactions with related parties in the year were with the directors and the investment manager.

There have been no material transactions between the Company and its directors during the year. The only amounts paid to them were in respect of remuneration and expenses for which there were no outstanding amounts payable at the year-end.

In relation to the provision of services by the investment manager, other than fees payable by the Company in the ordinary course of business and the provision of marketing activities, there have been no material transactions affecting the financial position of the Company during the year under review. More details on transactions with the investment manager, including amounts outstanding at the year end, are given in note 20 on page 73.

Annual General Meeting

The Company's annual general meeting will be held at 12.30 pm on Monday 27 November 2023 at 201 Bishopsgate, London EC2M 3AE. For those unable to travel, the event will be streamed live on the internet: **www.janushenderson.com/trustslive**.

Voting will be taken on a poll so all shareholders are encouraged to submit their proxy forms, or instruct the share dealing platform on which they hold their shares as to how their shares should be voted, by the required deadlines.

Directors' Report (continued)

Instructions on attending the meeting and details of resolutions to be put to shareholders are included in the Notice of Meeting enclosed with this annual report. If shareholders would like to submit any questions in advance, they are welcome to send these to the corporate secretary at itsecretariat@janushenderson.com.

Voting recommendation

The Board considers that the resolutions to be proposed at the meeting are in the best interests of the shareholders as a whole and therefore recommends that shareholders vote in favour of each resolution, as the directors intend to do in respect of their own beneficial holdings.

Directors' statement as to disclosure of information to the auditor

Each of the directors who were members of the Board at the date of approval of this report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the annual report of which the Company's auditor is unaware and he or she has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Single identifiable table

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out. There are no further disclosures to be made in this regard.

Modern slavery, bribery and tax evasion

As the Company's operations are delegated to third-party service providers, the Board seeks assurances, at least annually, from its suppliers that they comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017.

Company's structure

The Company is an investment company as defined in section 833 of the Companies Act 2006 and operates as an investment trust in accordance with s.1158 of the Corporation Tax Act 2010 as amended. The directors are of the opinion that the Company has conducted its affairs in compliance with s.1158 since approval was granted and intends to continue to do so.

The Company is listed on the Main Market of the London Stock Exchange and is subject to the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority. The Company is a member of the Association of Investment Companies.

The Company, and the Board, is governed by its articles of association, amendments to which must be approved by shareholders by way of a special resolution.

By order of the Board

Janus Henderson Secretarial Services UK Limited
Corporate Secretary
9 October 2023

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company's financial statements in accordance with UK adopted International Accounting Standards.

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 and of the profit or loss of the Company for that year.

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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 the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors consider that the annual report, 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.

Directors' responsibility statements

Each of the directors in office at the date of this report, confirms that, to the best of their knowledge:

- the financial statements prepared in accordance with UK adopted International Accounting Standards give a true and fair view of the assets, liabilities, financial position and profit and loss of the issuer and the undertakings included in the financial statements as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Daniel Burgess
Chairman of the Audit Committee
9 October 2023

Financial statements

Bekaert, 0.7% of the portfolio
Market leader in the material science of steel wire transformation and coating technologies

Independent auditor's report to the members of The European Smaller Companies Trust PLC

Opinion

We have audited the financial statements of The European Smaller Companies Trust PLC ('the Company') for the year ended 30 June 2023 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet and Cash Flow Statement and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 June 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We confirmed our understanding of the Company's going concern assessment process and engaged with the directors and the Company Secretary to determine if all key factors that we have become aware of during our audit were considered in their assessment.
- We inspected the directors' assessment of going concern, including the revenue forecast. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- We have reviewed the factors and assumptions, including the impact of the current economic environment, as applied to the revenue forecast and the liquidity assessment of the investments. We considered the appropriateness of the methods used to calculate the revenue forecast and the liquidity assessment and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment of the Company.
- We assessed the risk of breaching the debt covenants applicable to the overdraft facility as a result of a reduction in the value of the Company's investment portfolio. We calculated the Company's compliance with debt covenants and performed reverse stress testing in order to identify what factors would lead to the Company breaching those covenants.
- We considered the mitigating factors included in the revenue forecasts and covenant calculations that are within the control of the Company. We reviewed the Company's assessment of the liquidity of investments held and evaluated the Company's ability to sell those investments in order to cover working capital requirements should revenue decline significantly.
- We reviewed the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern a period of at least twelve months from the date the financial statements were authorised for issue.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors have considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income. • Risk of incorrect valuation or ownership of the investment portfolio. • Risk of incorrect calculation of the performance fees.
Materiality	• Overall materiality of £7.39m which represents 1% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on its operations will be from how climate change could affect the Company's investments and overall investment process. This is explained on page 17 in the principal risks and uncertainties. This disclosure forms part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'Other information'.

Our audit effort in considering climate change was focused on the adequacy of the Company's disclosures in the financial statements as set out in Note 1a and conclusion that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing as required by UK adopted international accounting standards. We also challenged the directors' considerations of climate change in their assessment of viability and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Statement of Comprehensive Income *(as described on page 35 in the Audit Committee Report and as per the accounting policy set out on page 59).* The total revenue for the year to 30 June 2023 was £25.06m (2022: £25.23m), consisting primarily of dividend income from listed equity investments. The investment income receivable by the Company during the year directly affects the Company's revenue return. There is therefore a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an appropriate accounting treatment. In addition to the above, the directors may be required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Statement of Comprehensive Income.	**We have performed the following procedures:** • We obtained an understanding of the processes and controls surrounding revenue recognition, including the classification of special dividends, by performing walkthrough procedures. • For 100% of dividends received and accrued, we recalculated the income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share, which was agreed to an independent data vendor. We also agreed a sample of dividends received and accrued to bank statements. • Where dividends were received or accrued in foreign currency, we translated the amount into the reporting currency of the Company using exchange rates sourced from an independence data vendor. • For all dividends accrued, we reviewed the investee company announcements to assess whether the dividend entitlements arose prior to 30 June 2023. • To test completeness of recorded income, we verified that expected dividends for each investee company held during the year had been recorded as income with reference to investee company announcements obtained from an independent data vendor. • For all investments held during the year, we reviewed the type of dividends paid with reference to an external data vendor to identify those which were special. Based on the work performed, we identified five special dividends received during the year, all classified as revenue. One special dividend was above our testing threshold and we assessed the appropriateness of management's classification as revenue by reviewing the underlying rationale for the distribution.	The results of our procedures identified no material misstatement in relation to incomplete or inaccurate revenue recognition, including incorrect classification of special dividends as revenue or capital items in the Statement of Comprehensive Income.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or ownership of the investment portfolio *(as described on page 35 in the Audit Committee Report and as per the accounting policy set out on page 58).* The valuation of the investment portfolio at 30 June 2023 was £835.74m (2022: £725.44m) consisting of listed investments. The valuation of the assets held in the investment portfolio is the primary driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.	**We have performed the following procedures:** • We obtained an understanding of the processes and controls surrounding investment valuation and legal title of listed investments by performing walkthrough procedures. • For all investments in the portfolio, we compared the market prices and exchange rates to an independent pricing vendor and recalculated the investment valuations as at the year-end. • For all investments in the portfolio, we obtained the market prices from an independent pricing vendor for five business days pre and post the year-end date and calculated the day-on-day movements to identify any stale prices. We verified that the listed prices are valid fair values through review of trading activity. • We compared the Company's investment holdings at 30 June 2023 to an independent confirmation received directly from the Company's custodian and depositary.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation or ownership of the investment portfolio.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of incorrect calculation of the performance fees *(as described on page 35 in the Audit Committee Report and as per the accounting policy set out on page 59).* The investment manager is eligible to receive a performance related fee when certain criteria are met, as prescribed in the investment management agreement ('IMA'). The performance fee for the year to 30 June 2023 was £7.18m (2022: £5.53m). The performance fee is calculated as 15% of the positive difference between the average annual NAV total return and the average annual total return of the benchmark, measured over a three-year rolling period. The upper limit on the total fee (management and performance fee) is 2% of the year-end net asset value. A performance hurdle over the benchmark of 1% must be reached before any performance fee can be earned and is excluded from the performance fee itself, should one be payable. There is a risk that the performance fee is not calculated correctly, in accordance with the IMA or that the methodology is open to misinterpretation.	**We performed the following procedures:** • We obtained an understanding of the processes and controls surrounding the performance fee calculation by performing walkthrough procedures to evaluate the design effectiveness of controls. • We reviewed the investment management agreement to assess the conditions that result in a performance fee being payable. • We performed a recalculation of the performance fee payable based on the calculation methodology set out in the IMA. • We agreed the key inputs of the calculation to underlying financial records, the IMA and external vendor data. • We verified that the performance hurdle was reached and excluded from the performance fee itself. We also verified that the upper limit on the total fee (management and performance fees) of 2% of year-end net asset value was not breached.	The results of our procedures identified no material misstatement in relation to the risk of incorrect calculation of the performance fee.

There have been no changes to the areas of audit focus raised in the above risk table from the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £7.39 million (2022: £6.52 million), which is 1% (2022: 1%) of net assets. We believe that net assets provides us with a materiality aligned to the key measure of the Company's performance.

During the course of our audit, we reassessed initial materiality and found no reason to alter the basis of calculation at year-end.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £5.54m (2022: £4.89m).

Given the importance of the distinction between revenue and capital for investment trusts, we have also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £1.15m (2022: £1.17m) being 5% (2022: 5%) of the revenue profit before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.37m (2022: £0.33m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

Corporate Governance Report

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Report relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Report is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 58;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate, set out on page 15;
- Directors' statement on whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities, set out on page 58;
- Directors' statement on fair, balanced and understandable set out on page 44;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 17;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 31; and
- The section describing the work of the Audit Committee set out on page 34.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are UK adopted international accounting standards, the Companies Act 2006, the Listing Rules, UK Corporate Governance Code, the Associate of Investment Companies' Code and Statement of Recommended Practice, Section 1158 of the Corporation Tax Act 2010 and the Companies (Miscellaneous Reporting) Regulations 2018.

Independent auditor's report to the members of The European Smaller Companies Trust PLC

(continued)

- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and the Company Secretary and review of Board minutes and the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through the incorrect classification of special dividends in the Statement of Comprehensive income. Further discussion of our approach is set out in the section on key audit matters on page 47.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed by the Company in 2017 to audit the financial statements for the year ended 30 June 2018 and subsequent financial reports.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 30 June 2018 to 30 June 2023.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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.

Mike Gaylor
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
9 October 2023

Statement of Comprehensive Income

Note		Year ended 30 June 2023 Revenue return £'000	Year ended 30 June 2023 Capital return £'000	Year ended 30 June 2023 Total return £'000	Year ended 30 June 2022 Revenue return £'000	Year ended 30 June 2022 Capital return £'000	Year ended 30 June 2022 Total return £'000
2	Investment income	25,054	–	25,054	25,231	–	25,231
2	Other income	9	–	9	–	–	–
9	Gains/(losses) on investments held at fair value through profit or loss	–	96,206	96,206	–	(185,662)	(185,662)
	Total income	**25,063**	**96,206**	**121,269**	**25,231**	**(185,662)**	**(160,431)**
	Expenses						
3	Management and performance fee	(776)	(10,284)	(11,060)	(844)	(8,906)	(9,750)
4	Other operating expenses	(760)	–	(760)	(830)	–	(830)
	Profit/(loss) before finance costs and taxation	**23,527**	**85,922**	**109,449**	**23,557**	**(194,568)**	**(171,011)**
5	Finance costs	(595)	(2,382)	(2,977)	(194)	(775)	(969)
	Profit/(loss) before taxation	**22,932**	**83,540**	**106,472**	**23,363**	**(195,343)**	**(171,980)**
6	Taxation	(2,005)	(86)	(2,091)	(2,660)	(72)	(2,732)
	Profit/(loss) for the year and total comprehensive income	**20,927**	**83,454**	**104,381**	**20,703**	**(195,415)**	**(174,712)**
7	**Return per ordinary share – basic and diluted**	**5.22p**	**20.82p**	**26.04p**	**5.16p**	**(48.75p)**	**(43.59p)**

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with UK adopted International Accounting Standards.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

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

The notes on pages 58 to 74 form part of these financial statements

Statement of Changes in Equity

Note		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
		Year ended 30 June 2023					
	Total equity at 1 July 2022	6,264	120,364	13,964	481,409	30,463	652,464
	Total comprehensive income:						
	Profit for the year	–	–	–	83,454	20,927	104,381
	Costs relating to sub division of shares	–	–	–	17	–	17
8	Ordinary dividends paid	–	–	–	–	(18,220)	(18,220)
	Total equity at 30 June 2023	**6,264**	**120,364**	**13,964**	**564,880**	**33,170**	**738,642**

Note		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
		Year ended 30 June 2022					
	Total equity at 1 July 2021	6,264	120,364	13,964	676,886	23,189	840,667
	Total comprehensive income:						
	(Loss)/profit for the year	–	–	–	(195,415)	20,703	(174,712)
	Costs relating to sub division of shares	–	–	–	(62)	–	(62)
8	Ordinary dividends paid	–	–	–	–	(13,429)	(13,429)
	Total equity at 30 June 2022	**6,264**	**120,364**	**13,964**	**481,409**	**30,463**	**652,464**

The notes on pages 58 to 74 form part of these financial statements

Balance Sheet

Note		At 30 June 2023 £'000	At 30 June 2022 £'000
	Non current assets		
9	Investments held at fair value through profit or loss	835,744	725,441
	Current assets		
11	Receivables	7,323	6,986
	Cash and cash equivalents	2	11
		7,325	**6,997**
	Total assets	**843,069**	**732,438**
	Current liabilities		
12	Payables	(10,411)	(11,155)
	Bank overdrafts	(94,016)	(68,819)
		(104,427)	**(79,974)**
	Net assets	**738,642**	**652,464**
	Equity attributable to equity shareholders		
14	Called up share capital	6,264	6,264
15	Share premium account	120,364	120,364
16	Capital redemption reserve	13,964	13,964
	Retained earnings:		
16	Other capital reserves	564,880	481,409
17	Revenue reserve	33,170	30,463
18	**Total equity**	**738,642**	**652,464**
18	**Net asset value per ordinary share – basic and diluted**	**184.26p**	**162.76p**

The financial statements on pages 54 to 74 were approved and authorised for issue by the Board on 9 October 2023 and signed on its behalf by:

Daniel Burgess
Chairman of the Audit Committee

The notes on pages 58 to 74 form part of these financial statements

Cash Flow Statement

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Operating activities		
Profit/(loss) before taxation	106,472	(171,980)
Add back: interest payable	2,977	969
(Less)/add back: (Gains)/losses on investments held at fair value through profit or loss	(96,206)	185,662
Sales of investments held at fair value through profit or loss	274,632	317,888
Purchases of investments held at fair value through profit or loss	(290,536)	(295,427)
Withholding tax on dividends deducted at source	(3,510)	(3,691)
Increase in prepayments and accrued income	(881)	(320)
Decrease/(increase) in amounts due from brokers	1,215	(2,462)
(Decrease)/increase in accruals and deferred income	(451)	2,910
(Decrease)/increase in amounts due to brokers	(636)	1,100
Net cash (outflow)/inflow from operating activities before interest and taxation[1]	**(6,924)**	**34,649**
Interest paid	(2,618)	(969)
Taxation recovered	749	167
Net cash (outflow)/inflow from operating activities	**(8,793)**	**33,847**
Financing activities		
Equity dividends paid (net of refund of unclaimed dividends – see note 8)	(18,220)	(13,429)
Costs relating to sub-division of shares	–	(62)
Net drawdown/(repayment) of bank overdraft	27,004	(20,345)
Net cash raised from/(used in) financing activities	**8,784**	**(33,836)**
(Decrease)/increase in cash and cash equivalents	**(9)**	**11**
Cash and cash equivalents at the start of the year	11	–
Cash and cash equivalents at the end of the year	**2**	**11**
Comprising:		
Cash at bank	2	11
	2	**11**

1 In accordance with IAS7.31 cash inflow from dividends was £24,157,000 (2022: £24,892,000) and cash inflow from interest was £3,000 (2022: £nil)

The notes on pages 58 to 74 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The European Smaller Companies Trust PLC is a company incorporated in England and Wales and subject to the provisions of the Companies Act 2006. The Company is domiciled in the United Kingdom. The financial statements for the year ended 30 June 2023 have been prepared in accordance with UK adopted International Accounting Standards. These comprise standards and interpretations approved by the International Accounting Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the IFRS Interpretations Committee ('IFRS IC') that remain in effect, to the extent that IFRSs have been adopted by the UK Endorsement Board.

The financial statements have been prepared on a going concern basis. They have also been prepared on the historical cost basis, except for the revaluation of certain financial instruments at fair value through profit and loss. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment companies issued by the Association of Investment Companies ('AIC') in July 2022, is consistent with the requirements of UK adopted International Accounting Standards, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

The financial position of the Company is described in the Strategic Report on pages 1 to 23. Note 13 to the financial statements includes the Company's policies and process for managing its capital; its financial risk management objectives; and details of financial instruments and exposure to credit risk and liquidity risk. In preparing these financial statements the directors have considered the impact of climate change risk and concluded there was no impact as the investments are valued based on market quoted prices.

Accounting standards

i) No new standards are applicable to the Company for the year ended 30 June 2023.

ii) Relevant new standards, amendments and interpretations issued but not effective for the current financial year and not early adopted by the Company:

Standard		Effective for annual periods beginning on or after
IAS 1 Amendments	Classification of Liabilities as current or non–current	1 January 2023
IAS 1 Amendments	Disclosure of Accounting Policies	1 January 2023
IAS 1 Amendments	Non–current Liabilities with Covenants	1 January 2024
IAS 8 Amendments	Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IAS 12 Amendments	Deferred Tax and OECD Pillar 2 Taxes	1 January 2023

The directors expect the standards issued, but not yet effective, will have no or no material impact on the financial statements of the Company in future periods.

b) Going concern

The directors have determined that it is appropriate to prepare the financial statements on a going concern basis and have concluded that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

In coming to this conclusion, the directors have considered the nature of the portfolio, being that the securities held are readily realisable, the size and covenants of the Company's bank overdraft and the strength of its distributable reserves. As part of their usual assessment of risks facing the Company, the directors have further considered the global economic and geopolitical environment including the repercussions of the Covid-19 pandemic, the ongoing war in Ukraine, the impact of this and the pandemic on supply chains and the possible impact of climate change risk on the value of the portfolio. The directors have concluded that the Company is able to meet its financial obligations, including the repayment of the bank overdraft, as they fall due for a period of at least twelve months from the date of this report.

c) Investments held at fair value through profit or loss

All investments are held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Proceeds are measured at fair value, which are regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments in the Balance Sheet is based on their quoted bid price at the Balance Sheet date, without deduction of the estimated future selling costs.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

c) Investments held at fair value through profit or loss (continued)

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments.

d) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in s.1158 of the Corporation Tax Act 2010.

e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Bank deposit interest is accounted for on an accruals basis.

f) Expenses

All expenses and interest payable are accounted for on an accruals basis. On the basis of the Board's expected long-term split of total returns in the form of capital and revenue returns of 80% and 20%, respectively, the Company charges 80% of its finance costs and management fees to capital. Any performance fees payable are allocated wholly to capital, reflecting the fact that although they are calculated on a total return basis they are expected to be attributable largely, if not wholly, to capital performance. Expenses which are incidental to the purchase or sale of an investment are charged to the capital return column of the Statement of Comprehensive Income and allocated to the other capital reserves. All other operating expenses are charged to the revenue return column of the Statement of Comprehensive Income.

g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently 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 the effective tax rate of corporation tax for the accounting period.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under s.1158 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

h) Dividends

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Statement of Changes in Equity. Following the change to the Company's articles of association with effect from 21 November 2016 dividends may be paid from the revenue reserve or realised capital profits ('the capital reserve arising on investments sold').

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

i) Foreign currency

For the purposes of the financial statements, the results and financial position are expressed in pounds Sterling, which is the functional and the presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into Sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss that are denominated in overseas currencies at the Balance Sheet date are translated into Sterling at the exchange rates ruling at that date. Exchange gains and losses on investments held at fair value through profit or loss are included within 'Gains/(losses) on investments held at fair value though profit or loss'.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. In the Cash Flow Statement, cash and cash equivalents includes cash in hand and deposits held at call with banks. In the Balance Sheet, bank overdrafts are not included in cash and cash equivalents, but are disclosed within current liabilities. All cash at the year-end was held at banks and there were no cash equivalents (2022: same).

k) Bank borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

l) Receivables

Receivables are amounts due from securities sold for future settlement, withholding tax recoverable, prepayments and accrued income in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Receivables are recognised initially at fair value and subsequently measured at amortised cost.

m) Payables

Payables are obligations to pay for securities purchased for future settlement, accruals and deferred income that have been acquired/incurred in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost.

n) Repurchase of ordinary shares

The costs of repurchasing ordinary shares, including related stamp duty and transaction costs, are taken directly to equity and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of called up share capital and into the capital redemption reserve.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

o) Capital reserves

Other Capital reserves
Capital reserve arising on investments sold
The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end; and
- unrealised foreign exchange differences of a capital nature.

Revenue reserve
The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

Capital redemption reserve
The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

Share capital
Share capital represents the nominal value of ordinary shares issued.

Share premium
The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

p) Key estimates and assumptions

The key estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. It also requires management to exercise judgment in the process of applying the Company's accounting policies. There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities. The decision to allocate special dividends as income or capital is a judgement, but is not considered a significant judgement on a materiality basis.

q) Operating segments

Under IFRS 8, operating segments are considered to be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The directors meet regularly to consider investment strategy and monitor the Company's performance. The Fund Manager, who has been designated by the investment manager to manage the Company's investments, attends all Board meetings at which investment strategy and performance are discussed. The directors consider that the Company has one operating segment, being the activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective.

The business is not managed on a geographical basis. However, an analysis of investments by country is provided on page 11.

Notes to the Financial Statements (continued)

2 a) Investment income

	2023 £'000	2022 £'000
Overseas dividend income from listed investments	**25,054**	**25,231**

All overseas dividend income is derived from investments in Europe.

b) Other income

	2023 £'000	2022 £'000
Bank interest	3	–
Interest received on withholding tax refund	6	–
	9	**–**

3 Management and performance fees

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	776	3,104	3,880	844	3,375	4,219
Performance fee	–	7,180	7,180	–	5,531	5,531
Total	**776**	**10,284**	**11,060**	**844**	**8,906**	**9,750**

A summary of the terms of the management agreement is given on page 16.

4 Other operating expenses

	2023 £'000	2022 £'000
Auditor's remuneration[1]	52	45
Directors' fees and expenses[2]	181	188
Other expense payable to the management company[3]	82	151
Custody fees	150	174
Depositary charges	47	47
Printing	17	19
Advisory and consultancy fees	74	75
Other expenses	157	131
	760	**830**

Expenses are net of VAT

1 The auditor has not undertaken any non-audit services in either period
2 Directors fees and expenses are related party transactions, more detail can be found in note 20. A breakdown of directors fees and expenses can be found in the Directors' Remuneration Report
3 Other expenses comprise fees payable to the investment manager which relate to marketing activities. More detail can be found in note 20

5 Finance costs

	2023			2022		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Bank overdraft interest	595	2,382	2,977	194	775	969

Notes to the Financial Statements (continued)

6 Taxation

a) Analysis of charge in year

	2023 Revenue return £'000	2023 Capital return £'000	2023 Total return £'000	2022 Revenue return £'000	2022 Capital return £'000	2022 Total return £'000
Foreign withholding taxes	3,179	86	3,265	3,691	72	3,763
Overseas tax reclaimable	(1,174)	–	(1,174)	(1,031)	–	(1,031)
Total current tax for the year (see note 6b)	**2,005**	**86**	**2,091**	**2,660**	**72**	**2,732**

b) Factors affecting tax charge for the year

The standard rate of corporation tax in the UK is 25% with effect from 1 April 2023.

The tax assessed for the year ended 30 June 2023 is lower than the effective rate of corporation tax of 20.5% (2022: 19%).

	2023 Revenue return £'000	2023 Capital return £'000	2023 Total return £'000	2022 Revenue return £'000	2022 Capital return £'000	2022 Total return £'000
Net profit/(loss) on ordinary activities before taxation	22,932	83,540	106,472	23,363	(195,343)	(171,980)
Corporation tax at effective rate of 20.5% (2022: standard rate of 19%)	4,701	17,126	21,827	4,439	(37,115)	(32,676)
Effects of:						–
(Gains)/losses on investments held not taxable	–	(19,722)	(19,722)	–	35,276	35,276
Expenses not deductible for tax purposes	1	–	1	–	–	–
Corporate Interest Restriction	200	–	200	–	–	–
Expenses unutilised for tax purposes	187	2,596	2,783	243	1,839	2,082
Non-taxable dividends	(5,089)	–	(5,089)	(4,682)	–	(4,682)
Overseas tax	2,005	86	2,091	2,660	72	2,732
Tax charge	**2,005**	**86**	**2,091**	**2,660**	**72**	**2,732**

c) Provision for deferred taxation

No provision for deferred taxation has been made in the current year or in the prior year. Due to the Company's tax status as an investment trust and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided deferred tax on any capital gains arising on the revaluation or disposal of investments.

d) Factors that may affect future tax charges

The Company can offset management fees, performance fees and other administrative expenses and interest costs against taxable income to eliminate any tax charge on such income. The tax legislation refers to these as management expenses (management fees, performance fees and other administrative expenses) and non-trade loan relationship deficits (interest costs and these are captured together under the heading 'Expenses unutilised for tax purposes' in the table above). Where these are not fully utilised, they can be carried forward to future years. As the Company is unlikely to generate future taxable profits to utilise these amounts, the Company cannot recognise an asset to reflect them, but must still disclose the deferred tax amount carried forward arising from any unutilised amounts.

Consequently, the Company has not recognised a deferred tax asset totalling £19,688,000 (2022: £16,284,000) arising as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits, and based on a prospective tax rate of 25% (2022: 25%). These expenses will only be utilised, to any material extent, if changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

Notes to the Financial Statements (continued)

7 Return per ordinary share

The return per ordinary share figure is based on the net profit for the year of £104,381,000 (2022: loss £174,712,000) and on the weighted average number of ordinary shares in issue during the year of 400,867,176 (2022: 400,867,176).

The return per ordinary share figure detailed above can be further analysed between revenue and capital, as below. The Company has no securities in issue that could dilute the return per ordinary share. Therefore the basic and diluted return per ordinary share are the same.

	2023 £'000	2022 £'000
Net revenue profit	20,927	20,703
Net capital profit/(loss)	83,454	(195,415)
Net profit/(loss)	**104,381**	**(174,712)**
Weighted average number of ordinary shares in issue during the year	400,867,176	400,867,176

	2023 Pence	2022 Pence
Revenue return per ordinary share	5.22	5.16
Capital return per ordinary share	20.82	(48.75)
Total return per ordinary share	**26.04**	**(43.59)**

8 Dividends

	2023 £'000	2022 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend of 3.10p for the year ended 30 June 2022 (2021: 2.10p)	12,427	8,418
Interim dividend of 1.45p per ordinary share for the year ended 30 June 2023 (2022: 1.25p)	5,812	5,011
Unclaimed dividends from prior years	(19)	–
	18,220	**13,429**

The final dividend of 3.10p per ordinary share in respect of the year ended 30 June 2022 was paid on 2 December 2022 to shareholders on the Register of Members at the close of business on 21 October 2022. The total dividend paid amounted to £12,427,000.

Subject to approval at the annual general meeting in November 2023, the proposed final dividend of 3.25p per ordinary share will be paid on 1 December 2023 to shareholders on the Register of Members at the close of business on 3 November 2023. The shares will be quoted ex-dividend on 2 November 2023.

The proposed final dividend for the year ended 30 June 2023 has not been included as a liability in these financial statements. Under UK adopted International Accounting Standards, these dividends are not recognised until approved by shareholders.

The total dividends payable in respect of the financial year which form the basis of the test under s.1158 are set out below:

	2023 £'000	2022 £'000
Revenue available for distribution by way of dividends for the year	20,927	20,703
Interim dividend of 1.45p per ordinary share for the year ended 30 June 2023 (2022: 1.25p)	(5,812)	(5,011)
Proposed final dividend of 3.25p for the year ended 30 June 2023 (2022: 3.10p) (based on 400,867,176 shares in issue at 9 October 2023)	(13,028)	(12,427)
Transfer to Revenue reserve	**2,087**	**3,265**

The Company's undistributed revenue represents 8.3% (2022: 12.9%) of total income.

Notes to the Financial Statements (continued)

9 Investments held at fair value through profit or loss

	2023 £'000	2022 £'000
Valuation at 1 July	725,441	933,499
Investment holding losses/(gains) at 1 July	31,609	(189,287)
Cost at 1 July	**757,050**	**744,212**
Purchases at cost	290,536	295,427
Sales at cost	(280,133)	(282,589)
Cost at 30 June	**767,453**	**757,050**
Investment holding gains/(losses) at 30 June	68,291	(31,609)
Valuation of investments at 30 June	**835,744**	**725,441**

The Company received £274,632,000 (2022: £317,888,000) from investments sold in the year. The book cost of these investments when they were purchased were £280,133,000 (2022: £282,589,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Total capital gains/(losses) from investments

	2023 £'000	2022 £'000
Realised (losses)/gains based on historical cost	(5,501)	35,299
Less revaluation gains recognised in previous years	(29,418)	(13,518)
(Losses)/gains on investments sold in year on carrying value at the previous Balance Sheet date	**(34,919)**	**21,781**
Revaluation of investments held at 30 June	129,318	(207,378)
Exchange gains/(losses)	1,807	(65)
Total	**96,206**	**(185,662)**

10 Substantial interests

The Company has interests of 3% or more of any class of capital in five investee companies. These investments are not considered by the directors to be significant in the context of these financial statements.

Company	Valuation £'000	% of issued share capital owned
Indel	4,475	3.9
KSB	13,997	3.7
Manz	4,487	3.2
Bike24	3,777	3.2
CSAM Health	1,924	3.0

11 Receivables

	2023 £'000	2022 £'000
Securities sold for future settlement	2,023	3,238
Withholding tax recoverable	3,991	3,217
Prepayments and accrued income	1,309	531
	7,323	**6,986**

Notes to the Financial Statements (continued)

12 Payables

	2023 £'000	2022 £'000
Securities purchased for future settlement	464	1,100
Accruals and deferred income	9,947	10,055
	10,411	**11,155**

13 Risk management policies and procedures

As an investment trust the Company invests in equities and other investments for the long term so as to secure its investment objectives as stated in the Strategic Report. In pursuing its investment objective, the Company is exposed to a variety of financial risks that could result in either a reduction in net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit risk, and the directors' approach to the management of these risks, are set out below. The Board and the investment manager co-ordinate the Company's risk management and there are various risk management systems in place.

The Board determines the objectives, policies and processes for managing risks, and these are set out below under the relevant risk category. The policies for the management of risk have not changed from the previous accounting period.

13.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. Market risk comprises market price risk (see note 13.1.1), currency risk (see note 13.1.2) and interest rate risk (see note 13.1.3). The investment manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

13.1.1 Market price risk

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

Management of the risk
The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the investment manager. Investment performance is reviewed at each Board meeting. The Board monitors the investment manager's compliance with the Company's mandate.

The Company's exposure to changes in market prices on equity investments was £835,744,000 (2022: £725,441,000).

Concentration of exposure to market price risk
A geographical analysis of the Company's investment portfolio is shown on page 11.

Market price risk sensitivity
The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 20% in the fair values of the Company's investments at each Balance Sheet date is given below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 20% increase in the value of the investments on the revenue return as at 30 June 2023 is a decrease of £167,000 (2022: £145,000) and on the capital return is an increase of £166,480,000 (2022: £144,508,000). Accordingly, the total impact on shareholders' funds is an increase of £166,313,000 (2022: £144,363,000).

The impact of a 20% decrease in the value of the investments on the revenue return as at 30 June 2023 is an increase of £167,000 (2022: £145,000) and on the capital return is a decrease of £166,480,000 (2022: £144,508,000). Accordingly, the total impact on shareholders' funds is a decrease of £166,313,000 (2022: £144,363,000).

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.1.2 Currency risk

A proportion of the Company's assets, liabilities, income and expenses are denominated in currencies other than Sterling (the Company's functional and presentational currency). As a result, movements in exchange rates may affect the Sterling value of those items.

Management of the risk
The investment manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. The investment manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's NAV and total return of a movement in the exchange rate to which the Company's assets, liabilities, income and expenses are exposed. The Company does not hedge its foreign currency exposure.

Foreign currency borrowing and financial instruments may be used to limit the Company's exposure to future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Borrowings are limited to 30% of NAV.

Investment income denominated in foreign currencies is converted into Sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure
The fair values of the Company's monetary items that have foreign currency exposure at the year-end are shown below. Where the Company's equity investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

2023	**Euro £'000**	**Swedish Krona £'000**	**Swiss Franc £'000**	**Other £'000**
Receivables (securities sold for future settlement, dividends and other income receivable)	5,513	183	1,225	366
Payables (securities purchased for future settlement, accruals and other payables)	(506)	(392)	–	–
Bank overdrafts	(94,016)	–	–	–
Total foreign currency exposure on net monetary items	**(89,009)**	**(209)**	**1,225**	**366**
Investments	606,082	90,411	73,253	56,701
Total net foreign currency exposure	**517,073**	**90,202**	**74,478**	**57,067**

2022	Euro £'000	Swedish Krona £'000	Swiss Franc £'000	Other £'000
Receivables (securities sold for future settlement, dividends and other income receivable)	5,451	39	1,088	356
Payables (securities purchased for future settlement, accruals and other payables)	(628)	–	(98)	(463)
Bank overdrafts	(68,819)	–	–	–
Total foreign currency exposure on net monetary items	**(63,996)**	**39**	**990**	**(107)**
Investments	525,903	70,991	56,320	72,227
Total net foreign currency exposure	**461,907**	**71,030**	**57,310**	**72,120**

The above amounts are not representative of the exposure to risk during each year, as levels of monetary foreign currency exposure change significantly throughout the year.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.1.2 Currency risk (continued)

Foreign currency sensitivity

The following tables illustrate the sensitivity of the total profit after tax for the year and the net assets in regard to movements in the Company's foreign currency financial assets and financial liabilities caused by changes in the exchange rates for the Euro/Sterling, Swedish Krona/Sterling, Swiss Franc/Sterling and other/Sterling.

It assumes the following changes in exchange rates:

Euro/Sterling +/- 10% (2022: 10%). Swedish Krona/Sterling +/- 10% (2022: 10%).

Swiss Franc/Sterling +/- 10% (2022: 10%). Other/Sterling +/- 10% (2022: 10%).

These percentages are deemed reasonable based on the average market volatility in exchange rates. The sensitivity analysis is based on the Company's foreign currency financial assets and financial liabilities held at each Balance Sheet date.

The impact on the total profit after tax and the year-end net assets of a depreciation in the year-end exchange rate for Sterling against the currencies shown would have been as follows:

	2023				2022			
	Euro £'000	Swedish Krona £'000	Swiss Franc £'000	Other £'000	Euro £'000	Swedish Krona £'000	Swiss Franc £'000	Other £'000
Profit after tax								
Revenue return	1,812	192	96	218	1,760	172	95	274
Capital return	67,065	10,005	8,106	6,274	58,193	7,856	6,233	7,992
Change to profit after tax for the year	**68,877**	**10,197**	**8,202**	**6,492**	**59,953**	**8,028**	**6,328**	**8,266**
Impact on net assets	**68,877**	**10,197**	**8,202**	**6,492**	**59,953**	**8,028**	**6,328**	**8,266**

The impact on the total profit after tax and the year-end net assets of an appreciation in the year-end exchange rate for Sterling against the currencies shown would have been as follows:

	2023				2022			
	Euro £'000	Swedish Krona £'000	Swiss Franc £'000	Other £'000	Euro £'000	Swedish Krona £'000	Swiss Franc £'000	Other £'000
Profit after tax								
Revenue return	(1,521)	(157)	(78)	(179)	(1,440)	(141)	(77)	(223)
Capital return	(54,871)	(8,186)	(6,632)	(5,134)	(47,612)	(6,427)	(5,099)	(6,539)
Change to profit after tax for the year	**(56,392)**	**(8,343)**	**(6,710)**	**(5,313)**	**(49,052)**	**(6,568)**	**(5,176)**	**(6,762)**
Impact on net assets	**(56,392)**	**(8,343)**	**(6,710)**	**(5,313)**	**(49,052)**	**(6,568)**	**(5,176)**	**(6,762)**

The above amounts are representative of the exposure to risk during the year, although levels of monetary foreign currency exposure in each currency will change as investments are bought and sold in the portfolio during the year.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.1.3 Interest rate risk

Interest rate movements may affect the level of interest receivable from cash and cash equivalents and the interest payable on the Company's short term borrowings. Interest rate changes may also have an impact on the market value of the Company's equity investments. In particular, the effect of interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

Management of the risk
The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts are not used to hedge against the exposure to interest rate risk.

Interest rate exposure
The exposure of financial assets and liabilities to floating interest rate risk can be found on the Balance Sheet under the headings 'Cash and cash equivalents' and 'Bank overdrafts'. These amounts are not necessarily representative of the exposure to interest rates during the year as the level of exposure changes as investments are made, borrowings are drawn down and repaid. The Company does not have any fixed interest rate exposure. Interest received on cash balances or paid on the bank overdraft is at a margin over the applicable base rate (2022: same).

Interest rate sensitivity
The impact on the total profit after tax and the year-end net assets of an increase or decrease of 100 basis points (2022: 100 basis points) in interest rates would have been as follows:

Statement of Comprehensive Income	Increase in rates 2023 £'000	Decrease in rates 2023 £'000	Increase in rates 2022 £'000	Decrease in rates 2022 £'000
Profit after tax				
Revenue return	(188)	188	(138)	138
Capital return	(752)	752	(551)	551
Change to net profit and net assets	**(940)**	**940**	**(688)**	**688**

This level of change is considered to be reasonable based on current market conditions.

In the opinion of the directors, these sensitivity analyses are not representative of the year as a whole since exposure changes as investments are made and borrowings are drawn down or repaid throughout the year.

13.2 Liquidity risk

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

Management of the risk
Liquidity risk is not significant as the majority of the Company's assets are investments in listed securities that are readily realisable. During the year the Company had a secured multi-currency overdraft equal to the lesser of £160,000,000 (2022: £160,000,000) and 25% (2022: 25%) of custody assets with HSBC Bank plc, the Company's depositary and custodian. Interest on the overdraft is charged at the aggregate of 1.25% and the base rate.

The amount drawn down at 30 June 2023 was £94,016,000 (2022: £68,819,000) in Euros (2022: Euros).

The Board gives guidance to the investment manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should generally remain fully invested and that short term borrowings be used to manage short term cash requirements.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.2 Liquidity risk (continued)

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at the year-end, based on the earliest date on which payment can be required, was as follows:

	2023		2022	
	3 months or less £'000	**Total £'000**	3 months or less £'000	Total £'000
Current liabilities:				
Borrowings under the overdraft facility	94,016	94,016	68,819	68,819
Amounts due in relation to securities purchased for future settlement and accruals	10,411	10,411	11,155	11,155
	104,427	**104,427**	**79,974**	**79,974**

The Company's cash balances are offset against its borrowings under the overdraft facility for the purposes of monitoring the level of borrowing within the overdraft limit.

13.3 Credit risk

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

Management of the risk

Credit risk is managed as follows:

- investment transactions are carried out with a large number of approved brokers, whose credit-standard is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker; and
- cash is held only with the custodian/depositary or reputable banks. The entity with which cash is held is subject to continual review.

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

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the Company through its decision to transact with counterparties of high credit quality. The Company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed periodically by the investment manager and limits are set on the amount that may be due from any one broker.

The Company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the Company's rights with respect to cash held by banks to be delayed or limited. The Company's cash balances are held by the custodian, HSBC Bank plc. The directors believe this counterparty is of high credit quality; therefore the Company has minimal exposure to credit risk.

Credit risk exposure

The table below summarises the maximum credit risk exposure of the Company as at the year-end:

	2023 £'000	2022 £'000
Receivables:		
Securities sold for future settlement	2,023	3,238
Accrued income	1,273	479
Cash and cash equivalents	2	11
	3,298	**3,728**

13.4 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities are either carried in the Balance Sheet at their fair value (investments) or their carrying amount is a reasonable approximation of fair value due to their short term to maturity (amounts due from securities sold for future settlement, dividends and amounts related to securities purchased for future settlement, accruals, cash and cash equivalents and bank overdrafts).

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.5 Fair value hierarchy disclosures

The table below sets out the fair value measurements using the IFRS 13 fair value hierarchy.

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Fair value hierarchy	2023 £'000
Equity Investments	
Level 1	835,744
Level 2	–
Level 3	–
Total	**835,744**

Fair value hierarchy	2022 £'000
Equity Investments	
Level 1	752,441
Level 2	–
Level 3	–
Total	**725,441**

13.6 Capital management policies and procedures

The Company's capital management objectives are:

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

The Company's capital at 30 June 2023 comprised its equity share capital, reserves and debt that are shown in the Company Balance Sheet at a total of £832,658,000 (2022: £721,283,000).

The Board, with assistance of the investment manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the need to buy back equity shares for cancellation, which takes account of the difference between the NAV per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's policies and processes for managing capital are unchanged from the preceding accounting period. The Company is subject to the following externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by law.

These requirements are unchanged since last year, and the Company has complied with them.

Notes to the Financial Statements (continued)

14 Called up share capital

	2023 number of shares	2023 £'000	2022 number of shares	2022 £'000
Allotted, issued and fully paid				
Ordinary shares of 1.5625p	**400,867,176**	**6,264**	400,867,176	6,264

During the year no ordinary shares were issued (2022: no shares issued) for proceeds of £nil (2022: £nil). In the current and prior financial year to date, the Company has not repurchased any shares for cancellation.

15 Share premium account

	2023 £'000	2022 £'000
At 1 July and 30 June	120,364	120,364

16 Capital redemption reserve and other capital reserves

2023	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves £'000
At 1 July 2022	13,964	(31,609)	513,018	481,409
Transfer on disposal of investments (see note 9)	–	(29,418)	29,418	–
Capital gains/(losses) for the year	–	129,318	(34,919)	94,399
Expenses, finance costs and taxation charged to capital	–	–	(12,752)	(12,752)
Net gain on foreign exchange	–	–	1,807	1,807
Costs relating to sub-division of shares	–	–	17	17
At 30 June 2023	**13,964**	**68,291**	**496,589**	**564,880**

2022	Capital redemption reserve £'000	Other capital reserve arising on revaluation of investments held £'000	Other capital reserve arising on investments sold £'000	Total other capital reserves £'000
At 1 July 2021	13,964	189,287	487,599	676,886
Transfer on disposal of investments (see note 9)	–	(13,518)	13,518	–
Capital (losses)/gains for the year	–	(207,378)	21,781	(185,597)
Expenses, finance costs and taxation charged to capital	–	–	(9,753)	(9,753)
Net loss on foreign exchange	–	–	(65)	(65)
Costs relating to sub-division of shares	–	–	(62)	(62)
At 30 June 2022	**13,964**	**(31,609)**	**513,018**	**481,409**

Notes to the Financial Statements (continued)

17 Retained earnings – revenue reserve

	2023 £'000	2022 £'000
At 1 July	30,463	23,189
Ordinary dividends paid	(18,220)	(13,429)
Revenue return for the year	20,927	20,703
At 30 June	**33,170**	**30,463**

18 Net asset value per ordinary share

The NAV per ordinary share is based on the net assets attributable to the ordinary shares of £738,642,000 (2022: £652,464,000) and on the 400,867,176 ordinary shares in issue at 30 June 2023 (2022: 400,867,176).

The Company has no securities in issue that could dilute the NAV per ordinary share (2022: same). The NAV per ordinary share at 30 June 2023 was 184.26p (2022: 162.76p).

The movements during the year in assets attributable to the ordinary shares were as follows:

	2023 £'000	2022 £'000
Net assets attributable to ordinary shares at start of year	652,464	840,667
Profit/(loss) for the year	104,381	(174,712)
Dividends paid in the year	(18,220)	(13,429)
Costs relating to sub-division of shares	17	(62)
Net assets at 30 June	**738,642**	**652,464**

19 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities as at 30 June 2023 (2022: same).

20 Transactions with the investment manager and related parties

Under the terms of an agreement effective from 22 July 2014, the Company has appointed Janus Henderson Investors to provide investment management, accounting, administration and company secretarial services. JHI has contracted with BNP Paribas to provide accounting and administration services.

The base management fee is 0.55% of net assets up to £800m and 0.45% thereafter. A performance fee of 15% of the positive difference between the average annual NAV total return and the average annual total return of the benchmark may be payable. Performance of the Company and the benchmark is measured on a NAV total return (with gross income reinvested) basis and is measured over a rolling three-year period. The management fee and performance fee are capped at 2.0% of the NAV at the last day of the relevant period and a hurdle of 1.0% must be reached before any performance fee can be earned. The total of the management fee paid or payable to the investment manager under the management agreement in respect of the year ended 30 June 2023 was £3,880,000 (2022: £4,219,000), of which £2,072,000 was outstanding at 30 June 2023 (2022: £4,219,000). A performance fee of £7,180,000 (2022: £5,531,000) in respect of the year ended 30 June 2023 is payable to the investment manager. Further context on the performance fee can be found in the Chairman's statement on page 5.

In addition to the above services, the investment manager facilitates marketing activities with third-parties which are recharged to the Company. The total fees paid or payable for these services for the year ended 30 June 2023 amounted to £82,000 excluding VAT (2022: £151,000), of which £71,000 was outstanding at 30 June 2023 (2022: £41,000).

The compensation payable to key management personnel in respect of short term employment benefits was £169,000. This disclosure relates wholly to the fees of £169,000 payable to the directors in respect of the year (2022: £185,000); the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on page 40 provides more detail. The Company has no employees.

Notes to the Financial Statements (continued)

21 Change in financial liabilities

	At 1 July 2022 £'000	Cashflows £'000	Non-cash changes foreign exchange movement £'000	At 30 June 2023 £'000
Bank overdrafts	(68,819)	(27,004)	1,807	(94,016)
Total	**(68,819)**	**(27,004)**	**1,807**	**(94,016)**

	At 1 July 2021 £'000	Cashflows £'000	Non-cash changes foreign exchange movement £'000	At 30 June 2022 £'000
Bank overdrafts	(89,099)	20,345	(65)	(68,819)
Total	**(89,099)**	**20,345**	**(65)**	**(68,819)**

Additional information

Granges, 0.8% of the portfolio
Aluminium technology company developing lighter, smarter and more sustainable aluminium products

Investment portfolio at 30 June 2023 (unaudited)

Ranking 2023	Ranking 2022	Company	Principal activities	Industry Groups	Geographical area	Valuation 2023 £'000	Percentage of portfolio
1	1	Van Lanschot Kempen	Banks	Financials	Netherlands	28,185	3.4
2	2	TKH	Electronic and Electrical Equipment	Industrials	Netherlands	26,976	3.2
3	17	Mytilineos	General Industrials	Industrials	Greece	17,772	2.1
4	3	DFDS	Industrial Transportation	Industrials	Denmark	17,306	2.1
5	5	BFF Bank	Investment Banking and Brokerage Services	Financials	Italy	15,466	1.8
6	6	u-blox	Technology Hardware and Equipment	Technology	Switzerland	14,917	1.8
7	43	SAES Getters	Electronic and Electrical Equipment	Industrials	Italy	14,653	1.7
8	33	KSB	Industrial Engineering	Industrials	Germany	13,997	1.7
9	22	Mersen	Electronic and Electrical Equipment	Industrials	France	13,920	1.7
10	15	Criteo	Software and Computer Services	Technology	France	13,087	1.6
		10 Largest				**176,279**	**21.1%**
11	9	eDreams ODIGEO	Travel and Leisure	Consumer Discretionary	Spain	12,096	1.4
12	41	AMG Critical Materials	Industrial Engineering	Industrials	Netherlands	11,874	1.4
13	66	Dermapharm	Pharmaceuticals and Biotechnology	Health Care	Germany	11,535	1.4
14	37	Verallia	General Industrials	Industrials	France	11,515	1.4
15	13	Ipsos	Media	Consumer Discretionary	France	10,979	1.3
16	20	Credito Emiliano	Banks	Financials	Italy	10,872	1.3
17	24	Fugro	Construction and Materials	Industrials	Netherlands	10,678	1.3
18	16	Nexans	Electronic and Electrical Equipment	Industrials	France	10,618	1.3
19	12	Quadient	Technology Hardware and Equipment	Technology	France	10,211	1.2
20	70	Gaztransport et Technigaz	Oil, Gas and Coal	Energy	France	10,105	1.2
		20 Largest				**286,762**	**34.3%**
21	65	Trigano	Leisure Goods	Consumer Discretionary	France	9,512	1.1
22	48	Nordnet	Investment Banking and Brokerage Services	Financials	Sweden	9,359	1.1
23	–	Iveco	Industrial Transportation	Industrials	Italy	9,198	1.1
24	47	Dalata Hotel	Travel and Leisure	Consumer Discretionary	Ireland	8,801	1.1
25	–	Alimak	Industrial Engineering	Industrials	Sweden	8,549	1.0
26	10	Grenergy Renovables	Electricity	Utilities	Spain	8,360	1.0
27	35	Kindred	Travel and Leisure	Consumer Discretionary	Malta	8,135	1.0
28	56	Rothschild & Co	Investment Banking and Brokerage Services	Financials	France	8,132	1.0
29	19	Grupo Catalana Occidente	Non-life Insurance	Financials	Spain	7,960	1.0
30	38	Metso Outotec	Industrial Engineering	Industrials	Finland	7,826	0.9
		30 Largest				**372,594**	**44.6%**
31	18	Corticeira Amorim	General Industrials	Industrials	Portugal	7,778	0.9
32	34	Kaufman & Broad	Household Goods and Home Construction	Consumer Discretionary	France	7,696	0.9
33	58	Acerinox	Industrial Metals and Mining	Basic Materials	Spain	7,586	0.9
34	27	Recticel	General Industrials	Industrials	Belgium	7,479	0.9
35	–	Stroeer	Media	Consumer Discretionary	Germany	7,308	0.9
36	81	ALSO	Technology Hardware and Equipment	Technology	Switzerland	7,181	0.9
37	–	PVA TePla	Technology Hardware and Equipment	Technology	Germany	7,169	0.9
38	82	Smartcraft	Software and Computer Services	Technology	Norway	7,139	0.8
39	21	ams OSRAM	Technology Hardware and Equipment	Technology	Austria	7,084	0.8
40	–	Munters	Construction and Materials	Industrials	Sweden	6,764	0.8
		40 Largest				**445,778**	**53.3%**

Investment portfolio at 30 June 2023 (unaudited) (continued)

Ranking 2023	Ranking 2022	Company	Principal activities	Industry Groups	Geographical area	**Valuation 2023 £'000**	Percentage of portfolio
41	49	Arnoldo Mondadori Editore	Media	Consumer Discretionary	Italy	6,762	0.8
42	57	Daetwyler	General Industrials	Industrials	Switzerland	6,682	0.8
43	–	Eurogroup Laminations	Industrial Support Services	Industrials	Italy	6,668	0.8
44	31	Piaggio	Leisure Goods	Consumer Discretionary	Italy	6,654	0.8
45	4	FLEX LNG	Industrial Transportation	Industrials	Norway	6,627	0.8
46	45	Andritz	Industrial Engineering	Industrials	Austria	6,616	0.8
47	–	Marel	Industrial Engineering	Industrials	Netherlands	6,553	0.8
48	7	Karnov	Consumer Services	Consumer Discretionary	Sweden	6,532	0.8
49	30	Metall Zug	Household Goods and Home Construction	Consumer Discretionary	Switzerland	6,469	0.8
50	78	Granges	Automobiles and Parts	Consumer Discretionary	Sweden	6,428	0.8
		50 Largest				**511,769**	**61.3%**
51	51	Modern Times	Media	Consumer Discretionary	Sweden	6,344	0.8
52	64	Elekta	Medical Equipment and Services	Health Care	Sweden	6,201	0.8
53	60	VGP	Real Estate Investment and Services	Real Estate	Belgium	6,180	0.7
54	67	Concentric	Industrial Engineering	Industrials	Sweden	6,132	0.7
55	101	Cewe Shiftung	Consumer Services	Consumer Discretionary	Germany	6,127	0.7
56	53	Plastic Omnium	Automobiles and Parts	Consumer Discretionary	France	6,120	0.7
57	11	Barco	Technology Hardware and Equipment	Technology	Belgium	6,065	0.7
58	55	Bekaert	Industrial Metals and Mining	Basic Materials	Belgium	6,011	0.7
49	14	EnergieKontor	Electricity	Utilities	Germany	5,997	0.7
60	95	Konecranes	Industrial Transportation	Industrials	Finland	5,996	0.7
		60 Largest				**572,942**	**68.5%**
61	–	Dufry	General Retailers	Consumer Discretionary	Switzerland	5,897	0.7
62	109	Suess MicroTec	Technology Hardware and Equipment	Technology	Germany	5,839	0.7
63	23	Renewi	Waste and Disposal Services	Utilities	Netherlands	5,825	0.7
64	–	Stratec	Medical Equipment and Services	Health Care	Germany	5,757	0.7
65	–	Jungheinrich	Industrial Engineering	Industrials	Germany	5,723	0.7
66	46	NORMA Group	Industrial Engineering	Industrials	Germany	5,687	0.7
67	29	Befesa	Waste and Disposal Services	Utilities	Germany	5,625	0.7
68	63	Dometic	Leisure Goods	Consumer Discretionary	Sweden	5,591	0.7
69	40	Origin Enterprises	Food Producers	Consumer Staples	Ireland	5,476	0.6
70	91	JOST Werke	Automobiles and Parts	Consumer Discretionary	Germany	5,240	0.6
		70 Largest				**629,602**	**75.3%**
71	25	HelloFresh	Personal Care, Drug and Grocery Stores	Consumer Staples	Germany	5,120	0.6
72	62	NED Apparaten	Electronic and Electrical Equipment	Industrials	Netherlands	5,017	0.6
73	–	Deme	Construction and Materials	Industrials	Belgium	4,961	0.6
74	59	Safilo	Personal Goods	Consumer Discretionary	Italy	4,928	0.6
75	–	Hellenic Exchanges	Investment Banking and Brokerage Services	Financials	Greece	4,894	0.6
76	–	Ionos	Software and Computer Services	Technology	Germany	4,871	0.6
77	28	FNAC Darty	Retailers	Consumer Discretionary	France	4,845	0.6
78	50	Krones	Industrial Engineering	Industrials	Germany	4,672	0.6
79	–	SGL Carbon	Industrial Metals and Mining	Basic Materials	Germany	4,649	0.6
80	75	Unicaja Banco	Banks	Financials	Spain	4,644	0.6
		80 Largest				**678,203**	**81.3%**
81	72	EDAG Engineering	Industrial Support Services	Industrials	Germany	4,631	0.6
82	79	Detection Technology	Electronic and Electrical Equipment	Industrials	Finland	4,614	0.6
83	69	Alma Media	Media	Consumer Discretionary	Finland	4,592	0.5
84	83	Alzchem	Chemicals	Basic Materials	Germany	4,508	0.5
85	8	Manz	Technology Hardware and Equipment	Technology	Germany	4,487	0.5
86	80	Indel	Electronic and Electrical Equipment	Industrials	Italy	4,475	0.5
87	–	CTP	Real Estate Investment and Services	Real Estate	Netherlands	4,435	0.5
88	–	Alleima	Industrial Metals and Mining	Basic Materials	Sweden	4,355	0.5
89	76	CAF	Industrial Transportation	Industrials	Spain	4,225	0.5
90	–	Adtran	Telecommunications Equipment	Telecommunications	Germany	4,207	0.5
		90 Largest				**722,732**	**86.5%**

Investment portfolio at 30 June 2023 (unaudited) (continued)

Ranking 2023	Ranking 2022	Company	Principal activities	Industry Groups	Geographical area	Valuation 2023 £'000	Percentage of portfolio
91	–	Swissquote	Investment Banking and Brokerage Services	Financials	Switzerland	4,150	0.5
92	–	Nordex	Alternative Energy	Energy	Germany	4,095	0.5
93	73	Montana Aerospace	Aerospace and Defence	Industrials	Switzerland	4,082	0.5
94	–	Alpha Services and Holdings	Banks	Financials	Greece	4,058	0.5
95	–	Smartoptics	Software and Computer Services	Technology	Norway	4,009	0.5
96	–	Italian Design Brands	Household Goods and Home Construction	Consumer Discretionary	Italy	4,008	0.5
97	–	Montea	Real Estate Investment Trusts	Real Estate	Belgium	3,991	0.5
98	–	Castellum	Real Estate Investment and Services	Real Estate	Sweden	3,889	0.5
99	85	Inficon	Electronic and Electrical Equipment	Industrials	Switzerland	3,871	0.5
100	119	Meyer Burger	Industrial Engineering	Industrials	Switzerland	3,801	0.5
		100 Largest				**762,686**	**91.5%**
101	92	Tikehau	Investment Banking and Brokerage Services	Financials	France	3,780	0.5
102	128	Bike24	Retailers	Consumer Discretionary	Germany	3,777	0.4
103	–	Banco Comercial Portugues	Banks	Financials	Portugal	3,759	0.4
104	–	NTG Nordic Transport	Industrial Transportation	Industrials	Denmark	3,735	0.4
105	61	Glanbia	Food Producers	Consumer Staples	Ireland	3,728	0.4
106	–	Datalogic	Electronic and Electrical Equipment	Industrials	Italy	3,572	0.4
107	107	Amadeus Fire	Industrial Support Services	Industrials	Germany	3,536	0.4
108	44	C&C Group	Beverages	Consumer Staples	Ireland	3,472	0.4
109	–	Arbonia	Construction and Materials	Industrials	Switzerland	3,465	0.4
110	–	Burckhardt Compression	Industrial Engineering	Industrials	Switzerland	3,308	0.4
		110 Largest				**798,818**	**95.6%**
111	105	Zumtobel	Construction and Materials	Industrials	Austria	3,225	0.4
112	122	SNP Schneider-Neureither	Software and Computer Services	Technology	Germany	3,067	0.4
113	102	Academedia	Consumer Services	Consumer Discretionary	Sweden	3,063	0.4
114	–	CTS Eventim	Media	Consumer Discretionary	Germany	3,052	0.4
115	126	Boozt	Retailers	Consumer Discretionary	Sweden	3,041	0.3
116	99	HusCompagniet	Household Goods and Home Construction	Consumer Discretionary	Denmark	2,874	0.3
117	121	Westwing	Retailers	Consumer Discretionary	Germany	2,756	0.3
118	52	Sanoma	Media	Consumer Discretionary	Finland	2,358	0.3
119	125	Klingelnberg	Industrial Engineering	Industrials	Switzerland	2,347	0.3
120	89	Bonava	Household Goods and Home Construction	Consumer Discretionary	Sweden	2,339	0.3
		120 Largest				**826,940**	**99.0%**
121	120	Resurs Holding	Finance and Credit Services	Financials	Sweden	2,264	0.3
122	117	CSAM Health	Health Care Providers	Health Care	Norway	1,924	0.2
123	–	Acast	Software and Computer Services	Technology	Sweden	1,424	0.2
124	110	Immobel	Real Estate Investment and Services	Real Estate	Belgium	1,190	0.1
125	103	hGears	Automobiles and Parts	Consumer Discretionary	Germany	1,187	0.1
126	74	LISI	Aerospace and Defence	Industrials	France	815	0.1
		Total investments				**835,744**	**100.0%**

Alternative performance measures (unaudited)

The Company uses the following Alternative Performance Measures ('APMs') throughout the annual report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders to help assess the Company's performance against its peer group.

Discount or premium

The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per ordinary share, expressed as a percentage of the NAV per ordinary share.

	NAV pence	Share price pence	Discount to NAV %
At 30 June 2023	184.26	154.00	16.4
At 30 June 2022	162.76	140.00	14.0

Gearing/(Net Cash)

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is a 'net cash' position and no gearing.

		2023	2022
Investments held at fair value through profit or loss (page 56) (£'000)	(A)	835,744	725,441
Net assets (page 56) (£'000)	(B)	738,642	652,464
Gearing (C = (A / B) -1)	(C)	13.1%	11.2%

Net asset value ('NAV') per ordinary share

The value of the Company's assets (i.e. investments (see note 9) and cash held (see Balance Sheet) less any liabilities (i.e. bank overdraft (see page 56 and note 12)) for which the Company is responsible divided by the number of shares in issue (see note 14). The aggregate NAV is also referred to as total equity in the Balance Sheet. The NAV per share is published daily and the year-end NAV can be found on page 1 and further information is available on page 73 in note 18 within the notes to the financial statements.

Ongoing charges

The ongoing charges ratio has been calculated in accordance with the guidance issued by the Association of Investment Companies as the total investment management fees and administrative expenses and expressed as a percentage of the net asset values throughout the year.

	2023 £'000	2022 £'000
Management fees	3,880	4,219
Other administrative expenses (note 4)	760	830
Less: non-recurring expenses	(29)	–
Ongoing charges	**4,611**	**5,049**
Average net assets[1]	**705,886**	**773,655**
Ongoing charges ratio	**0.65%**	**0.65%**

1 Calculated using the average daily net asset value

The ongoing costs provided in the Company's Key Investor Document ('KID') is calculated in line with the PRIIPs regulations. The ongoing costs in the KID includes finance costs and look through to costs incurred by other investment trusts and funds that the Company invests in.

Alternative performance measures (unaudited) (continued)

Total return

The total return on the share price or NAV takes into account both the rise and fall of NAVs/share prices and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). Dividends paid and payable are set out in note 8 on page 64.

	NAV per share	Share price
NAV/Share price per share at 30 June 2022 (pence)	162.76	140.00
NAV/Share price per share at 30 June 2023 (pence)	184.26	154.00
Change in the year (%)	13.2	10.0
Impact of dividends reinvested (%)	2.8	3.3
Total return for the year (%)	**16.4**	**13.6**

Dividend yield

The yield is the annual dividend expressed as a percentage of the year-end share price.

		30 June 2023	30 June 2022
Annual dividend (pence)	(A)	4.70	4.35
Share price (pence)	(B)	154.00	140.00
Yield (C=A/B) (%)	(C)	3.1	3.1

Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and transposed into English Law, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM') and depositary to manage and oversee the operations of the investment vehicle. The Board of Directors retains responsibility for strategy, operations and compliance and the directors retain a fiduciary duty to shareholders.

Alternative Performance Measures

A glossary of alternative performance measures can be found on pages 79 and 80.

Association of Investment Companies ('AIC')

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. For the year ended 30 June 2022, this was the Euromoney Smaller European Companies ex UK Index. With effect from 1 July 2022, this is the MSCI Europe ex UK Small Cap Index.

Custodian

The custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

Depositary

As an AIF the Company is required to appoint a depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings and is responsible for the appointment of a custodian. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

Dividend dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the Register of Members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value per ordinary share will be disclosed ex-dividend.

Investment trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers and sellers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer or seller will tend to depress or increase the price that might be negotiated for a sale or purchase. Investment companies can use allotment or buyback powers to assist the market liquidity in their shares.

Market capitalisation ('market cap')

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

General Shareholder Information

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive, information in relation to the Company's leverage and remuneration of Janus Henderson Fund Management UK Limited, as the Company's Alternative Investment Fund Manager are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in an AIFMD Disclosure document which can be found on the Company's website.

BACS

Dividends and interest can be paid to shareholders and stockholders by means of BACS ('Bankers Automated Clearing Services'); mandate forms for this purpose are available from the registrar. Alternatively, shareholders can write to the registrar to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Equality Act 2010

Copies of this report and other documents issued by the Company are available from the Corporate Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the registrar, Equiniti, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance ('FATCA')

FATCA is a United States federal law enacted in 2010 with the purpose of enforcing the requirement for United States persons (including those living outside the USA) to file yearly reports on their non-USA financial accounts. Investment trusts monitor the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company makes an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, identify and report USA reportable accounts to HMRC, as required.

General Data Protection Regulation ('GDPR')

GDPR came into force on 25 May 2019. It aims to protect and empower individual data privacy and reshape the way organisations approach data privacy. A privacy statement can be found on the website **www.janushenderson.com**.

ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

Non-Mainstream Pooled Investments Status

The Company currently conducts its affairs so that its ordinary shares of 1.5625p can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the FCA rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Packaged Retail and Insurance-based Investment Products Regulation ('PRIIPS')/ Key Information Document ('KID')

Investors should be aware that the PRIIPs Regulation requires the investment manager, as the PRIIP manufacturer, to prepare a key information document in respect of the Company. This KID must be made available to retail investors prior to them making any investment decision and is available on the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed as it is based on historical data only.

Share price information

The Company's NAV is published daily and the market price of the Company's shares can be found in the Daily Official List published by the London Stock Exchange.

Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the registrar, Equiniti via **www.shareview.co.uk**. Please note that to gain access to your details on the Equiniti site you will need the holder reference number shown on your share certificate.

Taxonomy regulation

Regulation (EU) 2020/852 establishes the basis for the EU taxonomy. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities to provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In accordance with the Taxonomy Regulation, the Company confirms that the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Service providers

Registered office

201 Bishopsgate
London EC2M 3AE

Service providers

Alternative Investment Fund Manager

Janus Henderson Fund Management UK Limited
201 Bishopsgate
London EC2M 3AE

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Corporate broker

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Corporate Secretary

Janus Henderson Secretarial Services UK Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818

Registrar

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

Telephone: 0371 384 2472
(or +44 121 415 7047 if calling from overseas)
Lines are open 8.30 am to 5.30 pm, Monday to Friday

There is a range of shareholder information online

You can check your holding and find practical help on transferring shares or updating your details at **www.shareview.co.uk**.

Statutory Auditor

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Financial calendar

Annual results announced	October 2023
Ex dividend date	2 November 2023
Dividend record date	3 November 2023
Annual General Meeting	27 November 2023
Dividend payment date	1 December 2023
Half year results announced	February 2024

Information sources

For more information about the Company, visit the website at **www.europeansmallercompaniestrust.com**

To receive regular insights on investment trusts from the investment manager, visit: **www.janushenderson.com/en-gb/investor/subscriptions/**

Follow the Janus Henderson Investment Trusts on LinkedIn – Janus Henderson Investment Trusts, UK

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman.

Warning to shareholders

Many companies are aware that their shareholders may received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. Please note that it is very unlikely that either the Company or the Company's registrar, Equiniti, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

The European Smaller Companies Trust PLC
Registered as an investment company in England and Wales
Registration Number 2520734
Registered office: 201 Bishopsgate, London EC2M 3AE

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London Stock Exchange (TIDM) Code: ESCT
Global Intermediary Identification Number (GIIN): JX9KYH.99999.SL.826
Legal Entity Identifier (LEI): 213800N1B1HCQG2W4V90

Telephone: 0800 832 832
Email: support@janushenderson.com

www.europeansmallercompaniestrust.com

MANAGED BY
Janus Henderson
INVESTORS

aic
The Association of Investment Companies

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