abrdn UK Smaller Companies Growth Trust plc

Half Yearly Report 31 December 2023

Capturing the growth potential of UK smaller companies

abrdnuksmallercompaniesgrowthtrust.co.uk

Contents

Scan the QR Code below to register for email alerts relating to the Company:

SCAN ME

Investment Objective

The Company's objective is to achieve long-term capital growth by investment in UK-quoted smaller companies.

Reference Index

The Company's reference index is the Deutsche Numis Smaller Companies plus AIM (ex investment companies) Index.

Performance Highlights and Financial Calendar

Net asset value total return[A]	
Six months ended 31 December 2023	
+7.3%	
Year ended 30 June 2023	–7.4%

Share price total return[A]	
Six months ended 31 December 2023	
+12.9%	
Year ended 30 June 2023	–6.8%

Reference Index total return	
Six months ended 31 December 2023	
+5.5%	
Year ended 30 June 2023	–2.8%

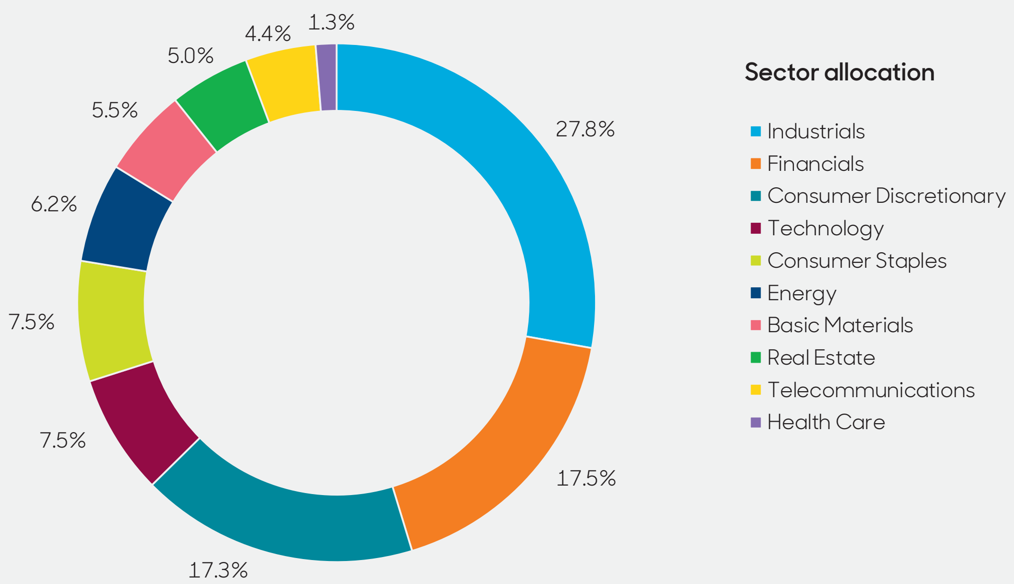
Discount to net asset value[A]	
As at 31 December 2023	
10.0%	
As at 30 June 2023	14.3%

Revenue return per share	
Six months ended 31 December 2023	
6.00p	
Six months ended 31 December 2022	5.32p

Ongoing charges ratio[A]	
Forecast year ending 30 June 2024	
0.91%	
Year ended 30 June 2023	0.95%

[A] Considered to be an Alternative Performance Measure as defined on pages 28 and 29.

Investment Portfolio by Sector



Performance Highlights and Financial Calendar

Financial Calendar

Payment of interim dividend for the year ending 30 June 2024	**12 April 2024**
Online shareholder presentation	**21 May 2024**
Financial year end	**30 June 2024**
Announcement of results for year ending 30 June 2024	**September 2024**
Annual General Meeting	**November 2024**
Payment of final dividend for the year ending 30 June 2024	**29 November 2024**

Financial Highlights

	31 December 2023	30 June 2023	% change
Capital return			
Total assets[A]	**£438.1m**	£451.5m	–3.0%
Equity shareholders' funds	**£413.2m**	£426.6m	–3.1%
Market capitalisation	**£371.8m**	£365.7m	+1.7%
Net asset value per share[B]	**508.95p**	482.95p	+5.4%
Share price	**458.00p**	414.00p	+10.6%
Discount to net asset value[C]	**10.0%**	14.3%	
Net gearing[C]	**1.9%**	2.5%	
Reference index	**5,404.69**	5,199.92	+3.9%
Dividends and earnings			
Revenue return per Ordinary share[D]	**6.00p**	5.32p	+12.8%
Interim dividend per share	**3.70p**	3.00p	+23.3%
Operating costs			
Ongoing charges ratio[CF]	**0.91%[E]**	0.95%	

[A] Defined as total assets per the Statement of Financial Position less current liabilities (before deduction of bank loans).
[B] With debt at par value.
[C] Considered to be an Alternative Performance Measure as defined on pages 28 and 29.
[D] Figure for 31 December 2023 is for the six months to that date. Figure for 30 June 2023 is for the six months to 31 December 2022.
[E] The ongoing charges ratio for the current year includes a forecast of costs, charges and assumes no change in net assets for the six months to 30 June 2024.
[F] Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

"In the six months to 31 December 2023, the net asset value ("NAV") total return was 7.3% while the share price delivered a total return of 12.9%. The Company outperformed the total return of its reference index, which was 5.5%."

Chairman's Statement

Performance

Many of the geo-political and economic issues that were the focus of our attention during 2022 continued dominate the headlines throughout 2023; the war in Ukraine; tension in the Taiwan Strait and the ongoing cost of living crisis. The horrendous events in Israel and Gaza since October 2023 have further exacerbated geopolitical tensions. Despite this backdrop, both the Company and equity markets generated positive returns in the second half of 2023.

In the six months to 31 December 2023, the net asset value ("NAV") total return was 7.3% while the share price delivered a total return of 12.9% The difference between these returns is reflected in the movement in the discount, which narrowed from 14.3% on 30 June 2023 to 10.0% at the end of the period. The Company outperformed the total return of its reference index, the Deutsche Numis Smaller Companies plus AIM (ex-investment companies) Index (the "reference index") which was 5.5%.

The volatility of the market and the NAV increased in the final quarter - the NAV and the market were both down over 6% in October, but up around 5% in November and up over 8% in December. By contrast, in the first three months of the period, monthly returns were never more than +/- 3%. Encouragingly, on a relative basis, the NAV outperformed the reference index in four out of the six months.

The Investment Manager's Review provides further information on individual stock performance and portfolio activity during the period, as well as the Investment Manager's outlook for the portfolio and the wider smaller companies sector.

Earnings and Dividend

While net revenue after tax was up 3.2% to £5.1 million, revenue earnings per share ("EPS") for the six months to 31 December 2023 increased by 12.8% to 6.00p (2022: 5.32p).

At the aggregate level, gross dividend receipts were down 1.5%, partly as a result of the reduction in the portfolio required to fund the buy backs. The portfolio also benefited from being able to generate meaningful interest income from cash balances for the first time in many years. Total income was up 2.3% to £6.2 million.

The analysis of the income forecast continues to indicate that the revenue account is in good health. The Board's declared dividend policy is that it aims to pay around 1/3 of the expected total dividend for the year at the interim stage, with the balance being paid out once the annual results are known. Consequently, the Board is declaring an interim dividend of 3.70p per share (2023: 3.00p per share) which will be paid on 12 April 2024 to shareholders on the register on 15 March 2024 with an associated ex-dividend date of 14 March 2024. Based on the current forecast for earnings, the Board hopes to be able to at least maintain the final dividend for the year at 8.00p per share thus providing dividend growth for the year as a whole.

Gearing

The Company has a £40 million revolving credit facility ("RCF") with The Royal Bank of Scotland International which matures in November 2025. At the end of the period, the level of gearing, net of cash, was 1.9% (30 June 2023: 2.5%), with £25 million drawn down under the RCF at an interest rate of 6.48%.

Total returns to 31 December 2023	**6 months %**	**1 year %**	**3 years %**	**5 years %**	**10 years %**
NAV[A]	+7.3	+1.5	–16.2	+25.5	+81.7
Share price[A]	+12.9	+1.9	–23.3	+22.6	+63.3
Reference Index[B]	+5.5	+3.2	–3.3	+24.0	+50.3
Peer Group weighted average (NAV)	+6.6	+4.6	+3.2	+31.0	+77.4
Peer Group weighted average (share price)	+9.6	+4.8	–3.4	+31.0	+78.6

[A] Considered to be an Alternative Performance Measure.
[B] Deutsch Numis Smaller Companies including AIM (ex investment companies) Index, prior to 1 January 2018 Deutsch Numis Smaller Companies (ex investment companies) Index.
Source: abrdn and Refinitiv Datastream

Discount Control and Share Buy Backs

At 31 December 2023, the Company's share price was trading at a discount of 10.0% to its NAV per share, including income with debt at fair value. This was narrower than the 14.3% discount at which the shares were trading at the end of June 2023. Between these two points there was significant volatility in the discount, particularly following the events in October, when we saw the average discount of all investment trusts reach levels not seen since the depths of the Global Financial Crisis. The performance of equity markets in the last couple of months of 2023 helped pull the industry back, but discounts remain wide across the UK smaller companies sector and investment trusts as a whole. As far as the discount of the Company is concerned, we did witness some narrowing towards the end of the period, but it remained at a level where the Board felt it was in the best interests of shareholders as a whole to continue to buy back shares. Consequently, the Company was active in the market on most days and bought back 7.1 million shares (8.1% of the opening issued share capital) at a weighted average price of 411.21p, which equated to an average discount of 13.2%.

The buy backs acted to enhance the NAV per share by 1.1%.

Investment Manager Investment Programme

The Board notes the announcement by abrdn plc in December that it was initiating a programme whereby it would invest six months' worth of the management fees paid to it by the investment trusts it manages in buying shares of those trusts. We are pleased to welcome abrdn as a shareholder.

Online Shareholder Presentation

In order to encourage as much interaction as possible with our shareholders, we will be hosting an Online Shareholder Presentation, which will be held at 10.00am on Tuesday 21 May 2024. At this event you will receive a presentation from the Investment Manager and have the opportunity to ask live questions of the Chairman and the Investment Manager. For any shareholders unable to attend, the event will be recorded and made available on the Company's website.

Full details on how to register for the online event can be found at: **https://bit.ly/UK-Smaller-Companies**

Details are also contained on the Company's website.

Outlook

A number of commentators have referred to the perceived value in the UK market relative to other markets and its own trading range. The sense is that valuations are so far out of kilter that there must be some reversion towards what would be considered more "normal" valuations. Such a turnaround does appear overdue and would undoubtedly be beneficial for UK domestic stocks, which have been hardest hit. At the same time, the recent release of the Q4 2023 GDP numbers means that the UK has been in a "technical recession", and this has strengthened the case of the optimists for interest rate cuts which should be seen as beneficial to equity markets.

However, when one looks further afield, the enthusiasm has to be tempered by the geopolitical situation; the war in Ukraine and the events in the Middle East, coupled with the uncertainty of the number of elections that are forecast to take place in 2024 means that the outlook has to remain very uncertain. Time will tell as to which factor will dominate over the coming months and there will doubtless be bumps in the road. There is also the concern that any recovery in the UK economy could be weak.

With such an outlook, investors should benefit from a quality bias. A slowing of the global economy has been expected and quality companies can take measures to protect profits and deliver earnings growth against this backdrop. With the Investment Manager's focus on such companies, the Board considers that the Company is well placed to meet its objective of achieving long-term capital growth for shareholders.

Liz Airey
Chairman
27 February 2024

Interim Management Report

Directors' Responsibility Statement

The Directors are responsible for preparing the Half Yearly Financial Report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements has been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting';
- The Interim Board Report (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- The financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

Principal and Emerging Risks and Uncertainties

The Board regularly reviews the principal and emerging risks and uncertainties faced by the Company together with the mitigating actions it has established to manage the risks. These are set out within the Strategic Report contained within the Annual Report for the year ended 30 June 2023 and comprise the following risk categories:

- Strategy
- Investment performance
- Key person risk
- Share price
- Financial instruments
- Financial obligations
- Regulatory
- Operational
- Geopolitical

There are a number of other risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. These include the impacts of the conflicts in Ukraine and the Middle East, as well as continuing tensions between the US and China. The Board is also conscious of the impact of inflation and higher interest rates on financial markets. Other than these factors, the Company's principal risks and uncertainties have not changed materially since the date of the Annual Report and no material change is foreseen in the principal risks over the remainder of the financial year.

Going Concern

The Company's assets consist mainly of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions. The Board has set overall limits for borrowing and reviews regularly the Company's level of gearing, cash flow projections and compliance with banking covenants. The Board has also reviewed stress testing analysis and considered the liquidity of the portfolio.

As at 31 December 2023, the Company had a £40 million unsecured revolving credit facility with The Royal Bank of Scotland International Limited which matures on 1 November 2025. £25 million of the facility was drawn down at the end of the period.

The Directors are mindful of the Principal Risks and Uncertainties summarised above and they believe that the Company has adequate financial resources to continue in operational existence for a period of not less than 12 months from the date of approval of this Report. They have arrived at this conclusion having confirmed that the Company's diversified portfolio of realisable securities is sufficiently liquid and could be used to meet short-term funding requirements were they to arise. The Directors have also reviewed the revenue and ongoing expenses forecasts for the coming year and considered the Company's Condensed Statement of Financial Position as at 31 December 2023 which shows net current liabilities of £9.7 million at that date, and do not consider this to be a concern due to the liquidity of the portfolio which would enable the Company to meet any short term liabilities if required.

Taking all of this into account, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board
Liz Airey
Chairman
27 February 2024

Investment Manager's Review

The net asset value ("NAV") total return for the Company for the six months to 31 December 2023 was 7.3% while the share price total return was 12.9%. By comparison, the UK smaller companies sector as represented by the Deutsche Numis Smaller Companies plus AIM (ex investment companies) Index (the "reference index") delivered a total return of 5.5%.

Equity Markets

We were pleased to deliver outperformance, despite equity markets remaining volatile and challenging, with macro top down factors continuing to dominate for much of the period. The second half of 2023 rounded off two years of dramatic interest rate rises to combat inflation, geopolitical instability, and fears around the risk of a global recession; although it has yet to materialise. The end of 2023 looked to signal the end of rising interest rates, however the pace of reversion is still very much in question, and "higher for longer" is a possible macro environment. With inflation now at a more manageable level, that pathway will likely be driven by economic growth and labour markets. 2024 is also a big year for election voting globally, with 40% of the world's population voting in elections this year, including the USA, the UK and India.

There is a general consensus that UK equity markets are cheap relative to others on a variety of metrics and around two UK quoted companies a week are being acquired either by private equity business or other corporates, as merger and acquisition ("M&A") activity has increased. It is likely that this will continue to feature in 2024, as interest rates fall, driving increasing quoted company M&A activity. Both interest rates and bond yields are hopefully at, or close to, peaks and fears of a resurgence in inflation are diminishing. This provides a better backdrop for equity markets, and for growth investing. It is worth remembering that the UK equity market is very international in its exposure, and in the portfolio almost 50% of underlying revenues are generated overseas. This delivers some revenue diversification for the portfolio.

We have been, and will continue to remain, true to our investment process which has been consistent through five economic cycles; with company fundamentals at its core. Throughout the period under review, company results have been resilient, the quality focus allowing them to protect margins and profits. We have continued to find new ideas, assisted by our stock screening tool "the Matrix" which helps us identify quality growth and momentum companies throughout the cycle.

We hope the stuttering progress of equity markets in 2023 should become smoother in 2024 as the inflation and interest rates headwinds retreat. This in turn should encourage a return of net buying by investors and a narrowing of discounts within the investment trust sector. 2023 was a challenging period for smaller companies, but the outlook for 2024 looks more favourable.

"We were pleased to deliver outperformance, despite equity markets remaining volatile and challenging, with macro top down factors continuing to dominate for much of the period."

Performance

The NAV total return for the six month period ended 31 December 2023 was 7.3%, outperforming the total return of 5.5% from the reference index. Whilst across the portfolio we have not been totally immune to macro headwinds or earnings downgrades, we have been very pleased at the earnings resilience of the Company's investments, particularly the larger holdings. At the time of writing, in the current top 10 holdings, eight had upgrades to earnings expectations when they last reported, with the other two expectations remaining unchanged.

The five leading performers during the period were as follows:

Ergomed (101bps contribution) – There was a recommended cash offer from private equity group Permira, representing a 28% premium to the prior closing price. We no longer hold this position.

Investment Manager's Review

Continued

Ashtead Technology (89bps contribution) – The company continues to trade strongly and rounded off a year of strong execution with a materially earnings-enhancing acquisition of ACE Winches that together prompted a 25% upgrade to FY 24 earnings. The acquisition is consistent with the company's M&A strategy, consolidating a fragmented mechanical solutions market, expanding its range of products, services and geographical footprint, and transitioning an oil and gas focussed business towards offshore renewables. The outlook for growth remains strong and the company has increased its share in a growing offshore energy and renewables market. We have continued to add to this position as the company has shown strong execution.

Hill & Smith (54bps contribution) – The company has enjoyed continued strong momentum in the US, coupled with resilience in the UK. The US exposure generates 73% of operating profit, which is driven by a compelling infrastructure market. Management has a clear strategy of organic revenue growth, supplemented with M&A, and is executing it well. This continues to be a top holding in the portfolio.

Hilton Food (54bps contribution) – This was a reassuring period of reporting for this long-term holding, with the inflation-driven pressures on margins from 2022 well behind it. The defensive characteristics of the company were evidenced. The company has also made some interesting new customer wins in Singapore and Canada, driving further growth opportunities. The share price is supported by an attractive dividend yield and a resilient earnings profile. The combination of topping up the holding and strong performance means this once again is a meaningful position in the top 10.

Paragon Banking (52bps contribution) – The shares demonstrated strength, particularly near the end of the period, the company having reported in line with expectations and evidencing its resilient business model and high credit quality, despite external macro-economic conditions driving some market concerns. The balance sheet exhibits strength, with support from retail deposits, and the business continues to deliver attractive returns and cash generation. The share price valuation remains attractive, with a strong dividend yield.

Other notable strong performers included:

Smart Metering Systems (49bps contribution) – There was a recommended cash offer from private equity firm KKR, representing a 40% premium to prior closing price.

Diploma (48bps contribution) – Diploma's FY23 results showcased a stellar performance in the face of weaker peer reporting throughout Q3 and a weak macro backdrop, demonstrating the power of the company's decentralised, increasingly diversified model. Management gave positive commentary on expectations into next year and the balance sheet is strong enough to execute on an active pipeline of M&A opportunities.

Cranswick (40bps contribution) – The barriers to entry for competitors to Cranswick are increasing due to its high quality customer base, market share increases, and capital investment that has delivered operational improvement. The H1 2024 results highlighted these strengths. Cranswick will continue to pursue investment in capabilities and production expansion, and also partner with its key customers to deliver growth in underdeveloped opportunities such as pet food. The company has a strong balance sheet, good cash generation, an attractive opportunity pipeline, and the ability to invest to widen the capability gap versus its peers.

"We have been very pleased at the earnings resilience of the Company's investments, particularly the larger holdings."

The five worst performers during the period were as follows:

Big Technologies (-90bps contribution) – There has been unpredictability in the timing of contracts and a year of no major wins. This resulted in a pause in the company's growth rate and downward revisions to earnings estimates. We reduced the exposure to this company through the period.

XP Power (-74bps contribution) - Management's growing confidence that the company could trade its way out of a difficult environment had been misplaced, and in early October it issued an update describing weak orders, a decline in China demand, and order postponements into 2024. This resulted in substantial earnings downgrades for this year and a risk of the company breaching its loan covenants, which made equity issuance likely. This, together with earnings downgrades, was a deterioration in the investment proposition and we exited the position.

Team17 (-67bps contribution) - The company issued an unexpected update in November that disappointed the market, with margins much lower than hoped, prompting a reset of margin and earnings expectations. 2023 was a challenging year for video gaming companies, with post-Covid content releases driving competition and competitive pricing. We exited the position.

Auction Technology (-49bps contribution) - The full year revenues came in lower than expected, driven by a deterioration in end-market trends. The weak macro environment led to the business cutting guidance for next year's organic growth to a range of 5-8%, compared to consensus' mid-teens estimate. Whilst some areas of the business are proving anti-cyclical as expected, there are others facing cyclicality and asset price normalisation post Covid which is compounding these pressures given the revenue model. We continue to believe the company has a leading market position, and its execution on increasing take rate through proliferation of value added services is supportive of the longer term outlook.

CVS (-44bps contribution) - The shares struggled to perform following the Competitions & Markets Authority ("CMA") review into the vet sector. The CMA is looking at the rate of inflation in vet services and the ability of households to access information. Pricing increases for CVS have not been out of line with its inflationary cost base, and margin resilience has come through operational self help. CVS has multiple services that it cross-sells, and different branding across its practices, which is likely to form part of the CMA review. We are confident the outcome of the review will not be too damaging or require much operational change for CVS. The results are due in Q1 of 2024. We continue to hold a position in the company.

Dealing and Activity

Seven new holdings were added during the period; **Ashtead Technology**, **Hunting**, **XPS Pensions**, **Volex**, **Premier Foods**, **Chemring** and **Johnson Service**.

Aberdeen-based **Ashtead Technology** provides key survey, mechanical and monitoring equipment and services for the global offshore energy and renewables market. It forms an important part of the subsea supply chain, and the investment case also provides differentiated exposure to global energy transition. The management team has a good track record of execution as it scales the business organically and through acquisitions. The company is a market leader in a thriving sector with strong customer relationships and pricing power with good margins from value-add services, all serving to drive strong growth. Momentum has been strong as the company demonstrates the ability to scale the fleet with growing capital expenditure investment. The balance sheet has significant fire power for deals and we believe that there are a number of acquisition options open to the company.

Hunting is a global engineering specialist manufacturer, focusing on high quality equipment for the energy industry. It manufactures components, technology systems and precision parts. The company is a high quality business operating in a cyclical industry, with oil and gas capital expenditure cycles being an important factor. Hunting has proactively diversified over recent years, through products, end markets and geographies. That helps the business control its cyclicality going forwards. Quality aspects come from its leading market positions, strong reputation, quality products and service and IP protection. The company has a strong balance sheet with marginal net debt, giving it flexibility to invest. End markets look to be in supportive territory after many years of underinvestment.

Investment Manager's Review

Continued

XPS Pensions is one of the largest pensions consultancy and advisory businesses in the UK. The nature of its services means its business is highly recurring and should be non-cyclical. Whilst the company has demonstrated its ability to grow organically in a lacklustre market, regulatory changes and pension market volatility have caused an acceleration in activity and demand from clients. XPS has been taking market share and the supportive end markets give it additional support to grow revenues, but also to gain new customers. There is potential for margin expansion from a combination of a more attractive mix shift in services, control of lower profitability accounts, implementation of IT administration systems and wage inflation under control; all providing the business potential for operational leverage.

Volex is a global market leader in performance-critical components and assemblies for use in specialist demanding solutions. It has transformed its strategy and management team, and re-positioned the business, and the refreshed strategy is bearing fruit. The company looks well positioned to drive more consistent organic growth, complemented by earnings accretive acquisitions. The mix of customers, geographies and end markets is continuously improving, reducing the cyclicality and customer concentration. Growth is supported by structural growth end markets such as data centres, supply chain regionalisation and electric vehicles. Acquisitions should enable the company to move further up the value chain, making it more embedded with its customers.

Premier Foods has made considerable progress over the last five years in reducing debt, resolving its pension issues and, importantly, generating consistent growth from its brands. Financial gearing has materially reduced and is expected to fall further, reflecting the strong cash generative nature of the business. The company has been investing to support brand growth and supply chain investments. The combination of strong brands, well defined domestic and international growth opportunities, and a proven track record in innovation and execution should serve to sustain the growth and momentum the business has been delivering.

Chemring is a niche aerospace and defence company with leading positions in the supply of cyber-security and digital warfare products to UK Defence and Homeland Security markets. The company has a number one market position in the supply of countermeasures to military aircraft. It is undergoing an extensive investment programme to enhance safety and operational efficiency across its countermeasure and energetics facilities. The business delivers profitable growth through its differentiators, such as intellectual property, niche technology and high barriers to entry, enabling attractive margins. These, along with strong and enduring customer relationships, provide a strong platform for future growth. The business enjoys good visibility with a strong order book. Russia's invasion of Ukraine has seen a sea-change in opinion towards defence spending in the West. The company has also seen a reset in terms of how the sector is viewed from an ESG perspective. The balance sheet is robust with strong ongoing operating cash generation, providing a platform for future investment, both organic and inorganic, and sustainable, growing dividend payments.

Johnson Service is a UK textile rental and services business. It rents and launders workwear, hotel linen and tablecloths to commercial customers, across the industrial and consumer end-markets. In both the workwear and hotels and restaurants segments of this market, the company is the largest service provider in the UK. Despite providing a relatively commoditised product and service, the company has consistently delivered organic growth ahead of both its market and its largest peers. It has sector-leading margins and returns comfortably ahead of its cost of capital. Trading was, unsurprisingly, affected by the Covid pandemic but despite ongoing macro uncertainty the company is now better placed than it has been at any point since the start of the pandemic.

We exited 10 positions during the period; **Ergomed**, **FDM**, **Focusrite**, **Future**, **GB Group**, **Marshalls**, **Motorpoint**, **Team 17**, **Watches of Switzerland** and **XP Power**.

The decision to exit **Watches of Switzerland** reflected a change in our investment case following Rolex's decision to acquire the Swiss retailer Bucherer. Our investment case was predicated on the company opening stores across the US and Europe and building sales in all territories. Key to that was a very close relationship with Rolex, ensuring strong supply as the partner of choice, and there is now risk associated with this.

We exited the holding in **XP Power** when we concluded that management's confidence that the company could trade its way out of its high net-debt-to-EBITDA ratio was misplaced and an equity issue was necessary. Along with recent earnings downgrades, this means the value proposition has deteriorated and we took the decision to sell the holding.

Team17 experienced an unexpected margin reset and poor growth outlook coupled with a change in CEO.

Future faces short and long-term uncertainties. In the short term it has limited visibility on the timing of audience recovery, a weak macro environment which continues to weigh on advertising spend, and its content portfolio leaves it more exposed to the macro environment than other publishers. Longer term, there are concerns around the organic growth prospects and execution risk on the new CEO's strategy for the business.

We also exited positions in **FDM, Focusrite, GB Group, Marshalls** and **Motorpoint** where momentum was lacklustre and we felt that it would take a long time to return amidst a subdued outlook for the various end markets.

Ergomed received a takeover approach from a private equity business and we took profits.

Dividends

There was good growth in dividend receipts during the period, aligned with our sentiment above that the reporting overall in the portfolio, and the earnings growth being delivered, remain strong.

It is notable that within the current top ten holdings, the rate of dividend growth has remained attractive. Excluding the outlier of 4imprint, which has once again delivered exceptional dividend growth, and Ashtead Technology, which pays a very small dividend, the other eight holdings are averaging 13% dividend growth forecasts for 2023. Although lower than at the same point in 2022 (assisted by a Covid recovery in dividends), this is a very healthy growth forecast, especially given the ongoing tougher economic climate. We believe this is a good signal of management confidence in business outlooks.

Big Technologies, Auction Technology, Marlowe and LBG Media are the only continuing holdings in the portfolio which do not pay dividends. The percentage of non-payers has reduced to 4% of the portfolio, from 12% when we last reported. Given the strength of the income stream from the portfolio as a whole, we are comfortable with some exposure to non-dividend payers.

Outlook

The prospect of interest rate reductions in the near future and the lowly valuation of UK equities should offer the potential for sustained market gains in 2024. One catalyst to support this would be inflows into UK equity funds, after a long period of outflows and, in the investment trust sector, this demand helping to narrow discounts. The derating of equities, and in particular smaller companies in the UK, has already happened. It actually happened in 2022 in anticipation of a recession in 2023, yet the economy proved to be more resilient than expected. Small and mid cap companies in the UK are attractively valued relative to large companies, whilst the UK market overall remains cheap on a global basis and relative to its own history.

The recessionary question mark in many geographies still looms as we move through 2024. A key driver for 2024 is when the downward leg of the interest rate cycle should begin, with growth now the focus rather than inflation. Whilst the timing of interest rate reductions are hard to predict, equity markets have historically risen once interest rates start falling. Whilst interest rates look to have peaked, the trading environment for companies is likely to continue to be difficult given lacklustre economic growth projections.

This is the time in the cycle to stick to 'quality' companies. They are more likely to be successful in navigating the more difficult macro environments and can defend earnings. We focused on earnings resilience across the portfolio throughout the period, however the top-down macro environment has continued to dominate style dynamics within markets. We have seen that ease in recent months and, looking into 2024, we hope company fundamentals return to becoming the more important drivers of returns. The investment process, including the Matrix, has been helpful at focusing on which companies are delivering superior growth momentum characteristics through economic cycles, and the outcomes of this can be seen in the trading activity referenced above.

For investors, there are important elections being held in 2024. The US Presidential Election in November, and probable General Election here in the UK. Much can change in a year but, as we move through the summer, we expect increasing deliberations over what differing scenarios may mean for financial markets. The importance of the US election is further increased with the US being the global growth driver, given the recent waning of Chinese influence. Meanwhile, concerning areas of conflict remain ongoing globally, which create further tail risks to economies and markets.

Investment Manager's Review
Continued

"The outlook for smaller companies investing remains strong, particularly given the current valuation of the market, and the interest rate and inflation environment suggest a more benign investment background in prospect. We remain optimistic about the prospects for the portfolio."

The level of discounts we are seeing across the investment trust sector has been painful for existing shareholders, but it has created an opportunity for good share price returns when markets recover. We thank shareholders for having had the patience to sit out this difficult backdrop for our quality, growth and momentum investing and, while market timing is difficult, we feel the most challenging top-down macro environment is behind us. The outlook for smaller companies investing remains strong, particularly given the current valuation of the market, and the interest rate and inflation environment suggest a more benign investment background in prospect. We remain optimistic about the prospects for the portfolio.

Abby Glennie and Amanda Yeaman,
abrdn
27 February 2024

Investment Process

abrdn UK Smaller Companies Growth Trust plc offers an actively managed portfolio of equity shares of smaller and mid-sized companies listed in the UK. Over the longer term, smaller company returns have outstripped those of their large-cap peers.

Management

The Company's Manager is abrdn Fund Managers Limited ("aFML", the "AIFM" or the "Manager"). aFML is a wholly-owned subsidiary of abrdn plc ("abrdn"). The Company's portfolio is managed by abrdn Investment Management Limited (the "Investment Manager") by way of a group delegation agreement in place between it and aFML. Abby Glennie joined the Smaller Companies Team at abrdn in 2016. She was appointed as Co-Manager for the Company in November 2020 and Lead Manager in January 2023. Amanda Yeaman joined the team in 2019 and was appointed as Deputy Manager in January 2023. They are both part of a team focusing on investing in smaller and mid-sized companies.

Investment Philosophy and Process

The Board has identified that abrdn has a proven and repeatable investment process, which has delivered strong returns to shareholders over the last 20 years. The investment process adheres to the abrdn Smaller Companies' Quality, Growth and Momentum led philosophy. The Investment Manager aims to select lower risk smaller companies in growing markets where business momentum is positive, predictable and improving. The Investment Manager has a long-term investment horizon, aiming to maximise returns by running winners in the long term and cutting losers. The investment process embeds abrdn's Environmental, Social and Governance ("ESG") principles.

The Matrix

In managing the Company's investment portfolio, the Quality, Growth and Momentum philosophy is enhanced by using abrdn's proprietary screening tool, 'the Matrix', to focus research efforts and the stock selection process. The Matrix is a quantitative screening tool assessing potential and current investments on 12 separate proven indicators of financial performance. It is a powerful tool in helping the Investment Manager identify a shortlist of investable stocks for further analysis and monitoring the performance and prospects of the portfolio. Stocks that are identified in this way are then subjected to further analysis and may be selected for the portfolio following discussions with company management.

Investment Process

Continued

When building a portfolio of smaller companies, the Investment Manager screens stocks using the Matrix and also considers a number of qualitative factors to help identify the best investment opportunities.

1. Sustainable growth
Companies in the portfolio will often produce niche products or services where demand is forecast to rise as these characteristics are the most predictive of future earnings and dividend growth.

2. Quality
The strength of each company's relationships with its customers or clients, the existence and importance of long-term contracts and the degree to which the company has any element of pricing power is important as it allows the company to pass on any cost increases and thereby maintain margins. The Investment Manager will typically avoid companies with high or unsustainable levels of debt.

3. Buy for the long term
Identify the great companies of tomorrow and then hold them for the long term. This reduces the financial drag of high trading volumes.

4. Concentrate the effort
The Matrix helps identify the likely candidates for inclusion in the portfolio and reduces the risk that effort is spent on stocks that will not fulfil the criteria for inclusion within the portfolio.

5. Management longevity
Founders retaining positions of authority within the companies after flotation, along with longevity of tenure by CEOs, are positive signals.

6. Valuation is secondary
Invest in companies which demonstrate positive earnings momentum as the team believes that it is a reliable predictor of future performance.

Ten Largest Investments

As at 31 December 2023

Hill & Smith
A business involved in the design, manufacture and supply of products for the construction and infrastructure industries.

Diploma
A global business supplying specialised technical products and services, with a focus on three sectors; Life Sciences, Seals and Controls.

Morgan Sindall
A UK based construction and regeneration company.

Cranswick
A high-quality, vertically-integrated pork and chicken products company operating in the UK.

Bytes Technology
A UK based company that provides information technology software offerings and solutions, with a focus on cloud and security products.

JTC
A global professional service business, with a focus on fund, corporate and private client services, including fund administration.

4imprint
A direct marketer of promotional products, with a focus on the US.

Ashtead Technology
A leading provider of equipment rental solutions, advanced underwater technologies and support services to the global offshore energy sector.

Paragon Banking
A UK based company that provides specialist banking services.

Hilton Food
Builds and operates large scale, highly automated food processing, manufacturing and logistics services for leading retail and food services customers.

Investment Portfolio

At 31 December 2023

Company	Industry	Market value £'000	Total assets %
Hill & Smith	Industrial Metals and Mining	17,851	4.1
Diploma	Industrial Support Services	16,285	3.7
Morgan Sindall	Construction and Materials	15,017	3.4
Cranswick	Food Producers	14,820	3.4
Bytes Technology	Software and Computer Services	14,583	3.3
JTC	Investment Banking and Brokerage Services	14,391	3.3
4imprint	Media	13,760	3.2
Ashtead Technology	Oil, Gas and Coal	13,711	3.1
Paragon Banking	Finance and Credit Services	13,619	3.1
Hilton Food	Food Producers	12,877	2.9
Top ten investments		**146,914**	**33.5**
Games Workshop	Leisure Goods	11,293	2.6
Hollywood Bowl	Travel and Leisure	11,260	2.6
discoverIE	Electronic and Electrical Equipment	11,016	2.5
XPS Pensions	Investment Banking and Brokerage Services	10,982	2.5
Sirius Real Estate	Real Estate Investment Trusts	10,901	2.5
CVS	Consumer Services	10,692	2.4
Smart Metering Systems	Industrial Support Services	10,569	2.4
Volution	Construction and Materials	10,503	2.4
Coats	General Industrials	10,424	2.4
Alpha Financial Markets	Industrial Support Services	9,765	2.2
Top twenty investments		**254,319**	**58.0**
GlobalData	Media	9,243	2.1
Gamma Communications	Telecommunications Service Providers	9,192	2.1
Midwich	Industrial Support Services	8,238	1.9
YouGov	Media	7,645	1.8
Telecom Plus	Telecommunications Service Providers	7,602	1.7
Next 15	Media	6,649	1.5
Tatton Asset Management	Investment Banking and Brokerage Services	6,517	1.5
Serica Energy	Oil, Gas and Coal	6,249	1.4
Hunting	Oil, Gas and Coal	6,208	1.4
Alpha Group	Investment Banking and Brokerage Services	6,102	1.4
Top thirty investments		**327,964**	**74.8**

At 31 December 2023

Company	Industry	Market value £'000	Total assets %
Kainos	Software and Computer Services	6,057	1.4
Safestore	Real Estate Investment Trusts	6,044	1.4
Big Technologies	Software and Computer Services	5,971	1.4
Chemring	Aerospace and Defense	5,790	1.3
Mortgage Advice Bureau	Finance and Credit Services	5,716	1.3
Craneware	Health Care Providers	5,608	1.3
Treatt	Chemicals	5,602	1.3
Mattioli Woods	Investment Banking and Brokerage Services	5,125	1.2
AJ Bell	Investment Banking and Brokerage Services	5,017	1.1
Auction Technology	Software and Computer Services	4,975	1.1
Top forty investments		**383,869**	**87.6**
Johnson Service	Industrial Support Services	4,813	1.1
Volex	Electronic and Electrical Equipment	4,455	1.0
Henry Boot	Real Estate Investment and Services	4,319	1.0
Marlowe	Industrial Support Services	4,091	0.9
Premier Foods	Food Producers	3,846	0.9
Impax Asset Management	Investment Banking and Brokerage Services	3,769	0.9
Ricardo	Construction and Materials	3,420	0.8
Robert Walters	Industrial Support Services	3,135	0.7
Liontrust Asset Management	Investment Banking and Brokerage Services	2,868	0.6
LBG Media	Media	2,541	0.6
Top fifty investments		**421,126**	**96.1**
Spirent	Telecommunications Equipment	1,795	0.4
Total portfolio		**422,921**	**96.5**
Net current assets[A]		15,204	3.5
Total assets		**438,125**	**100.0**

[A] Current assets less current liabilities. Excludes bank loans of £24,951,000.

Investment Case Study

Premier Foods

Premier Foods is a UK branded food business with a number one market leading position in five food categories (Flavourings & Seasonings, Snacks & Soups, Cooking Sauces & Accompaniments, Ambient Desserts and Ambient Cakes). Many of its brands are household names, which reflects the high degree of penetration and levels of purchase frequency. The management team has demonstrated consistent execution, addressed adjacencies and pursued international growth opportunities. Merger and acquisition ("M&A") activity is also likely to feature as the balance sheet benefits from reducing pension contribution commitments.

The business continues to go from strength to strength, delivering strong revenue growth, successfully taking market share within the grocery sector whilst maintaining the profit margin at an attractive level. The company has a resilient branded portfolio, strong retailer partnerships, distribution and scale. Its innovation pipeline gives it a robust platform to continue to deliver across its five strategic growth pillars. The focus to drive efficiency and cost savings has enabled the company to maintain its sector leading gross profit margins and with further efficiency levers to pull, including increased capital expenditure in its factory estate (automation and upgrading equipment). The Investment Manager expects there to be further margin improvements.

The recent acquisition of Fuel10K outlines the ambition of the company, utilising inorganic opportunities to extend its portfolio and enter adjacent categories (in this instance, breakfast) as well as new geographies. Management will, in time, be looking at larger brands but will continue to take its time and approach this part of the strategy in a prudent fashion so it ensures it can use the Premier Foods model to scale and grow any future acquisitions.

The company's high level of cash generation has enabled it to improve its financial resilience. Leverage is now 1.7x and the company is targeting 1.5x in the medium term. Attractive deal opportunities could drive this timeline to be slightly longer. Importantly, the company continues to make significant strides with its pension deficit and is on track for a full resolution by 2026.

Given the pathway for growth, opportunities to drive efficiency and the strength of the management team, the Investment Manager is of the view that the current valuation (P/E c.9.5x, prior to the benefit of the pension resolution) does not reflect the quality of the business.

Condensed Statement of Comprehensive Income (unaudited)

		Six months ended 31 December 2023			Six months ended 31 December 2022		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments held at fair value			**19,511**	**19,511**		(15,431)	(15,431)
Income	2	**6,223**	**-**	**6,223**	6,082	–	6,082
Investment management fee		**(354)**	**(1,063)**	**(1,417)**	(431)	(1,292)	(1,723)
Administrative expenses		**(510)**	**-**	**(510)**	(601)	–	(601)
Net return before finance costs and taxation		**5,359**	**18,448**	**23,807**	5,050	(16,723)	(11,673)
Finance costs		**(267)**	**(663)**	**(930)**	(117)	(351)	(468)
Return before taxation		**5,092**	**17,785**	**22,877**	4,933	(17,074)	(12,141)
Taxation	3	**-**	**-**	**-**	–	–	–
Return after taxation		**5,092**	**17,785**	**22,877**	4,933	(17,074)	(12,141)
Return per Ordinary share (pence)	5	**6.00**	**20.93**	**26.93**	5.32	(18.40)	(13.08)

The total column of the condensed Statement of Comprehensive Income represents the profit and loss account of the Company.

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

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

Condensed Statement of Financial Position (unaudited)

	Notes	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Non-current assets			
Investments held at fair value through profit or loss		**422,921**	438,408
Current assets			
Debtors		**792**	1,637
Investments in AAA-rated money-market funds		**16,848**	14,129
Cash and short-term deposits		**294**	294
		17,934	16,060
Current liabilities			
Creditors: amounts falling due within one year		**(2,730)**	(2,943)
Bank loan	8	**(24,951)**	(24,938)
		(27,681)	(27,881)
Net current liabilities		**(9,747)**	(11,821)
Net assets		**413,174**	426,587
Capital and reserves			
Called-up share capital		**26,041**	26,041
Share premium account		**170,146**	170,146
Capital reserve		**206,133**	217,927
Revenue reserve		**10,854**	12,473
Equity shareholders' funds		**413,174**	426,587
Net asset value per Ordinary share (pence)	7	**508.95**	482.95

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

Condensed Statement of Changes in Equity (unaudited)

Six months ended 31 December 2023

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2023	26,041	170,146	217,927	12,473	426,587
Return after taxation	–	–	17,785	5,092	22,877
Buyback of shares into Treasury	–	–	(29,579)	–	(29,579)
Dividends paid (see note 4)	–	–	–	(6,711)	(6,711)
Balance at 31 December 2023	26,041	170,146	206,133	10,854	413,174

Six months ended 31 December 2022

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2022	26,041	170,146	293,616	8,808	498,611
Return after taxation	–	–	(17,074)	4,933	(12,141)
Buyback of shares into Treasury	–	–	(10,929)	–	(10,929)
Dividends paid (see note 4)	–	–	–	(5,000)	(5,000)
Balance at 31 December 2022	26,041	170,146	265,613	8,741	470,541

The capital reserve at 31 December 2023 is split between realised of £134,329,000 and unrealised of £71,804,000 (31 December 2022 – realised £170,473,000 and unrealised £95,140,000).

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

Condensed Statement of Cash Flows (unaudited)

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000
Operating activities		
Net return before finance costs and taxation	**23,807**	(11,673)
Adjustment for:		
(Gains)/losses on investments	**(19,511)**	15,431
Decrease in accrued income	**846**	1,665
Increase in other debtors	**(7)**	–
(Decrease)/increase in other creditors	**(354)**	(399)
Net cash inflow from operating activities	**4,781**	5,024
Investing activities		
Purchases of investments	**(66,559)**	(43,368)
Sales of investments	**101,676**	74,458
Purchases of AAA-rated money-market funds	**(67,314)**	(65,871)
Sales of AAA-rated money-market funds	**64,594**	61,034
Net cash inflow from investing activities	**32,397**	26,253
Financing activities		
Interest paid	**(888)**	(484)
Equity dividends paid	**(6,711)**	(5,000)
Buyback of shares	**(29,579)**	(10,929)
Repayment of loan	**–**	(15,080)
Net cash outflow from financing activities	**(37,178)**	(31,493)
Decrease in cash and short-term deposits	**–**	(216)
Analysis of changes in cash during the period		
Opening cash and short-term deposits	**294**	582
Decrease in cash and short-term deposits as above	**–**	(216)
Closing cash and short-term deposits	**294**	366

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

Notes to the Financial Statements (unaudited)

For the period ended 31 December 2023

1. Accounting policies

Basis of accounting. The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in July 2023. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The half-yearly financial statements have been prepared using the same accounting policies as the preceding annual accounts.

2. Income

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000
Income from investments		
UK dividend income	**4,915**	4,834
Property income distributions	**98**	602
Overseas dividend income	**560**	441
Special dividends	**214**	–
	5,787	5,877
Interest income		
Interest from AAA-rated money-market funds	**427**	199
Bank interest	**9**	6
	436	205
Total income	**6,223**	6,082

3. Taxation

The taxation expense reflected in the Condensed Statement of Comprehensive Income is based on management's best estimate of the weighted annual corporation tax rate expected for the full financial year. The estimated annual tax rate used for the year to 30 June 2024 is 25%.

4. Ordinary dividend on equity shares

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000
2023 final dividend of 8.00p per share (2022 – 5.40p)	**6,711**	5,000

Notes to the Financial Statements (unaudited)

Continued

5. Return per share

	Six months ended 31 December 2023 p	Six months ended 31 December 2022 p
Revenue return	**6.00**	5.32
Capital return	**20.93**	(18.40)
Total return	**26.93**	(13.08)

Weighted average number of Ordinary shares	**84,942,293**	92,803,168

The figures above are based on the following:

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000
Revenue return	**5,092**	4,933
Capital return	**17,785**	(17,074)
Total return	**22,877**	(12,141)

6. Transaction costs

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

	Six months ended 31 December 2023 £'000	Six months ended 31 December 2022 £'000
Purchases	**237**	76
Sales	**65**	64
	302	140

7. Net asset value per share

Total shareholders' funds have been calculated in accordance with the provisions of applicable accounting standards. The analysis of total shareholders' funds on the face of the Condensed Statement of Financial Position reflects the rights, under the Articles of Association, of the Ordinary shareholders on a return of assets.

These rights are reflected in the net asset value and the net asset value per share attributable to Ordinary shareholders at the period end.

	As at 31 December 2023	As at 30 June 2023
Total shareholders' funds (£'000)	**413,174**	426,587
Number of Ordinary shares in issue at the period end[A]	**81,181,266**	88,329,911
Net asset value per share (pence)	**508.95**	482.95

[A] Excluding shares held in treasury.

During the six months ended 31 December 2023 the Company repurchased 7,148,645 Ordinary shares to be held in treasury (31 December 2022 - 2,332,757) at a cost of £29,579,000 (31 December 2022 - £10,929,000).

As at 31 December 2023 there were 81,181,266 Ordinary shares in issue (30 June 2023 - 88,329,911). There were also 22,983,156 Ordinary shares (30 June 2023 - 15,834,511) held in treasury.

8. Loans

On 1 November 2023, the Company entered into a new three year revolving credit facility of £40 million (the "RCF") with The Royal Bank of Scotland International Limited. The RCF has a further uncommitted accordion provision allowing the Company to request an increase, subject to lender's approval, of up to an additional £25 million. At 31 December 2023 £25 million was drawn down under the RCF at an interest rate of 6.48%.

The RCF is shown in the Condensed Statement of Financial Position net of unamortised expenses of £49,000 (30 June 2023 – Term Loan – £62,000).

The terms of the unsecured loan facility agreement ("the agreement") contain covenants that the Consolidated Net Tangible Assets as defined in the agreement must not be less than £200 million, the percentage of borrowings against the Adjusted Portfolio Value as defined in the agreement shall not exceed 30%, and the portfolio contains a minimum of thirty eligible investments (investments made in accordance with the Company's investment policy). The Company complied with all covenants throughout the year.

Notes to the Financial Statements (unaudited)

Continued

9. Analysis of changes in net debt

	At 30 June 2023 £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2023 £'000
Cash and short-term deposits	**294**	**-**	**-**	**294**
Investments in AAA-rated money-market funds	**14,129**	**2,719**	**-**	**16,848**
Debt due in less than one year	**(24,938)**	**-**	**(13)**	**(24,951)**
Total net debt	**(10,515)**	**2,719**	**(13)**	**(7,809)**

	At 30 June 2022 £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2022 £'000
Cash and short-term deposits	582	(216)	-	366
Investments in AAA-rated money-market funds	14,414	4,837	-	19,251
Debt due in less than one year	(39,988)	15,080	(16)	(24,924)
Total net debt	(24,992)	19,701	(16)	(5,307)

10. Fair value hierarchy

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (30 June 2023 - same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (31 December 2023 - £422,921,000; 30 June 2023 - £438,408,000) have therefore been deemed as Level 1.

The investment in AAA rated money-market funds of £16,848,000 (30 June 2023 - £14,129,000) is considered to be Level 2 under the fair value hierarchy of FRS 102 due to not trading in an active market.

11. Transactions with the Manager

The Company has an agreement with abrdn Fund Managers Limited ("aFML") for the provision of investment management, secretarial, accounting and administration and promotional activity services. The Company agreed a new managament fee charged on net assets (total assets less total liabilities), effective as of 1 July 2023. During the six months ended 31 December 2023 the management fee paid to aFML was charged by applying a tiered rate of 0.75% to the first £175 million of net assets, 0.65% of net assets between £175 million and £550 million and 0.55% of net assets above £550 million. The contract is terminable by either party on six months' notice.

During the period £1,417,000 (31 December 2022 – £1,723,000) of investment management fees were earned by aFML, with a balance of £1,417,000 (31 December 2022 – £1,723,000) due at the period end.

aFML also receives fees for secretarial and administrative services at a rate of £75,000 per annum exclusive of VAT, however, this fee arrangement ceased on 31 December 2023.

During the period, fees of £37,000 (31 December 2022 – £37,000) exclusive of VAT were earned by aFML for the provision of secretarial and administration services. The balance due to aFML at the period end was £94,000 (31 December 2022 – £38,000) exclusive of VAT.

The Manager also receives a separate promotional activities fee which during the period was based on an annual amount of £218,000 exclusive of VAT payable quarterly in arrears. During the period, fees of £109,000 (31 December 2022 – £192,000) exclusive of VAT were payable to the Manager, with a balance of £55,000 (31 December 2022 – £96,000) exclusive of VAT being due at the period end. The fee received by aFML for promotional activities is entirely expended by aFML on external/third party promotional costs and does not cover any internal aFML costs.

12. Subsequent events

Subsequent to the period end, the Company repurchased a further 4,119,687 Ordinary shares to be held in treasury at a cost of £18,052,000.

13. Half-Yearly Financial Report

The financial information in this Report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the year ended 30 June 2023 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006. The half-yearly financial statements have been prepared using the same accounting policies as the preceding annual accounts.

14. This Half-Yearly Financial Report was approved by the Board on 27 February 2024.

Alternative Performance Measures

Alternative performance measures ("APMs") are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS 102 and the AIC SORP.

The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Where the calculation of an APM is not detailed within the financial statements, an explanation of the methodology employed is provided below:

Discount

A discount is the percentage by which the market price is lower than the Net Asset Value ("NAV") per share.

		31 December 2023	30 June 2023
Share price	a	**458.00p**	414.00p
Net Asset Value per share	b	**508.95p**	482.95p
Discount	(a/b)-1	**10.0%**	14.3%

Net gearing

Net gearing measures the total borrowings less cash and cash equivalents divided by shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes amounts due from and to brokers at the period end as well as cash and short-term deposits.

		31 December 2023 £'000	30 June 2023 £'000
Total borrowings	a	**(24,951)**	(24,938)
Cash and short-term deposits		**294**	294
Investments in AAA-rated money-market funds		**16,848**	14,129
Amounts due from brokers		**5**	10
Amounts payable to brokers		**-**	(31)
Total cash and cash equivalents	b	**17,147**	14,402
Net gearing (borrowings less cash & cash equivalents)	c=a+b	**(7,804)**	(10,536)
Shareholders' funds	d	**413,174**	426,587
Net gearing (borrowings less cash & cash equivalents)	e=c/d	**1.9%**	2.5%

Ongoing charges ratio

The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC, which is defined as the total of investment management fees and recurring administrative expenses and expressed as a percentage of the average daily net asset values published throughout the year. The ratio reported at 31 December 2023 includes actual costs and charges for the six months and includes a forecast for costs, charges and the asset base for the remaining six months of the financial year ending 30 June 2024.

		31 December 2023[A] £'000	30 June 2023[B] £'000
Investment management fees	a	**2,885**	3,390
Administrative expenses	b	**917**	1,115
Less: non-recurring charges[C]	c	**-**	(40)
Ongoing charges	d=a+b+c	**3,802**	4,465
Average net assets	e	**411,837**	471,984
Ongoing charges ratio (excluding look-through costs)	f=d/e	**0.92%**	0.95%
Look-through costs[D]	g	**-**	-
Ongoing charges ratio (including look-through costs)	h=f+g	**0.92%**	0.95%

[A] Forecast for the year ending 30 June 2024 based on estimates as at 31 December 2023.
[B] For the year ended 30 June 2023.
[C] Comprises professional fees not expected to recur.
[D] Calculated in accordance with AIC guidance issued in October 2020 to include the Company's share of costs of holdings in investment companies on a look-through basis.

The ongoing charges ratio differs from the other ongoing costs figure reported in the Company's Key Information Document calculated in line with the PRIIPs regulations, which includes the ongoing charges ratio and the financing and transaction costs.

Total return

NAV and share price total returns show how the NAV and share price have performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. NAV total return assumes reinvesting the net dividend paid by the Company back into the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return assumes reinvesting the net dividend back into the share price of the Company on the date on which that dividend goes ex-dividend.

Six months ended 31 December 2023		NAV	Share price
Opening (p)	a	**482.95**	414.00
Closing (p)	b	**508.95**	458.00
Increase (p)	c=b-a	**26.00**	44.00
% increase	d=c/a	**5.4%**	10.6%
Uplift from reinvestment of dividends[A]	e	**1.9%**	2.3%
Total return increase	d+e	**7.3%**	12.9%

[A] The uplift from reinvestment of dividends assumes that the dividend of 8.00p paid by the Company in November 2023 was reinvested in the NAV and share price of the Company on the ex-dividend date.

Investor Information

Alternative Investment Fund Managers Directive ("AIFMD") and Pre-Investment Disclosure Document ("PIDD")

The Company has appointed abrdn Fund Managers Limited as its Alternative Investment Fund Manager and BNP Paribas Trust Corporation UK Limited as its Depositary under the AIFMD.

The AIFMD requires abrdn Fund Managers Limited, as the Company's AIFM, to make available to investors certain information prior to such investors' investment in the Company. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website: **abrdnuksmallercompaniesgrowthtrust.co.uk.**

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

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

abrdn does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information and end the call.

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

Shareholder Enquiries

For queries regarding shareholdings, lost certificates, dividend payments, registered details and related matters, shareholders holding their shares directly in the Company are advised to contact the Registrar (see Contact Addresses). Changes of address must be notified to the Registrar in writing.

Any general queries about the Company should be directed to the Company Secretary in writing (see Contact Addresses) or by email to: **CEF.CoSec@abrdn.com.**

Closure of the abrdn Investment Trust Savings Plans (the "Plans")

In June 2023, abrdn notified investors in the abrdn Investment Trust ISA, Share Plan and Investment Plan for Children that these plans would be closing in December 2023. All investors with a holding or cash balance at that time transferred to interactive investor ("ii"). ii communicated with investors in November to set up account security to ensure that investors could continue to access their holdings via ii following the closure of the Plans.

Please contact ii for any ongoing support with your account on **0345 646 1366**, or **+44 113 346 2309** if you are calling from outside the UK. Lines are open 8.00am to 5.00pm Monday to Friday. Alternatively you can access the ii website at: **www.ii.co.uk/abrdn-welcome.**

How to Invest

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser.

Alternatively, for private investors, there are a number of online dealing platforms that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms.

Discretionary Private Client Stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management and Financial Advice Association at: **pimfa.co.uk**.

Financial Advisers

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

Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority at: **fca.org.uk/firms/financial-services-register**

How to Attend and Vote at Company Meetings

Investors who hold their shares through a platform or share plan provider (for example Hargreaves Lansdown, Interactive Investor or AJ Bell) and would like to attend and vote at Company meetings (including AGMs) should contact their platform or share plan provider directly to make arrangements.

Investors who hold their shares through platforms and have their shares held through platform nominees, may not necessarily receive notification of general meetings and are advised to keep themselves informed of Company business by referring to the Company's website. Where voting is required, and the Board encourages shareholders to vote at all general meetings of the Company, shareholders with their holdings in nominees will need to instruct the nominee to vote on their behalf and should do so in good time before the meetings.

Keeping You Informed

Information about the Company can be found on its website: **abrdnuksmallercompaniesgrowthtrust.co.uk,** including share price and performance data as well as London Stock Exchange announcements, current and historic Annual and Half-Yearly Reports, and the latest monthly factsheet on the Company issued by the Manager. **Investors can receive updates via email by registering on the home page of the Company's website.**

Details are also available at: **invtrusts.co.uk.**

Twitter:

@abrdnTrusts

LinkedIn:

abrdn Investment Trusts

Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Company's website.

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking long-term capital growth by investment in UK-quoted smaller companies, and who understand and are willing to accept the risks of exposure to equities.

Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that its securities can be recommended by a financial adviser to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream pooled investments ("NMPIs") and intends to continue to do so for the foreseeable future. The Company's securities are excluded from the Financial Conduct Authority's restrictions which apply to NMPIs because they are securities issued by an investment trust.

Note

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

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

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

The information on pages 30 to 31 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by abrdn Investments Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Contact Addresses

Directors
Liz Airey (Chairman)
Ashton Bradbury
Alexa Henderson
Manju Malhotra
Tim Scholefield

Registered Office and Company Secretary
abrdn Holdings Limited
1 George Street
Edinburgh EH2 2LL

Email: **CEF.CoSec@abrdn.com**

Alternative Investment Fund Manager
abrdn Fund Managers Limited
1 George Street
Edinburgh EH2 2LL

Investment Manager
abrdn Investment Management Limited
1 George Street
Edinburgh EH2 2LL

Company Registration Number
SC145455 (Scotland)

Legal Entity Identifier ("LEI")
213800UUKA68SHSJBE37

Website
abrdnuksmallercompaniesgrowthtrust.co.uk

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Telephone: **0370 889 4076**
Website: **investorcentre.co.uk/contactus**

Depositary
BNP Paribas Trust Corporation UK Limited
10 Harewood Avenue
London NW1 6AA

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

Solicitors
Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Independent Auditor
KPMG LLP
319 St. Vincent Street
Glasgow G2 5AS

FSC www.fsc.org
MIX
Paper | Supporting responsible forestry
FSC® C001785

For more information visit **abrdnuksmallercompaniesgrowthtrust.co.uk**

abrdn.com