abrdn UK Smaller Companies Growth Trust plc

Half Yearly Report 31 December 2022

Capturing the growth potential of UK smaller companies

abrdnuksmallercompaniesgrowthtrust.co.uk

Contents

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 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 2022

–2.2%

Year ended 30 June 2022 –27.3%

Share price total return[A]
Six months ended 31 December 2022

+3.3%

Year ended 30 June 2022 –34.3%

Reference Index total return
Six months ended 31 December 2022

–0.6%

Year ended 30 June 2022 –19.0%

Discount to net asset value[A]
As at 31 December 2022

10.0%

As at 30 June 2022 14.6%

Revenue return per share
Six months ended 31 December 2021

5.32p

Six months ended 31 December 2021 4.26p

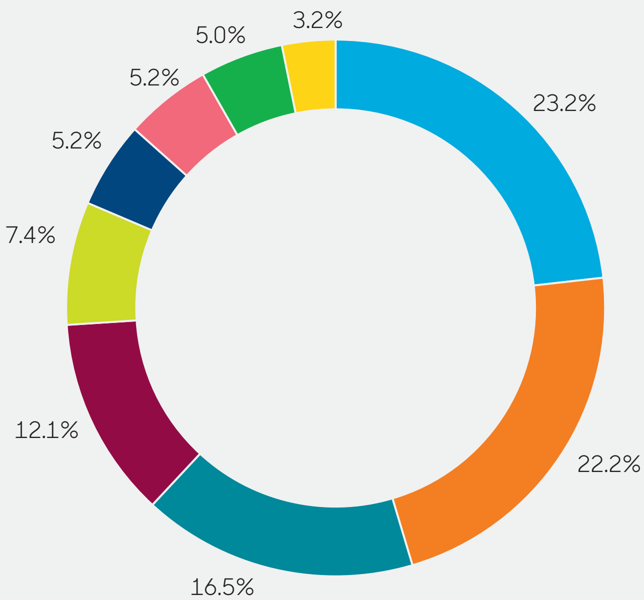
Ongoing charges ratio[A]
Forecast year ending 30 June 2023

0.94%

Year ended 30 June 2022 0.82%

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

Investment Portfolio by Sector



Sector allocation

- Consumer Discretionary
- Industrials
- Technology
- Financials
- Telecommunications
- Consumer Staples
- Health Care
- Real Estate
- Basic Materials

Performance Highlights and Financial Calendar

Continued

Financial Calendar

Payment of interim dividend for the year ending 30 June 2023	**14 April 2023**
Financial year end	**30 June 2023**
Announcement of results for year ending 30 June 2023	**August 2023**
Annual General Meeting	**November 2023**
Payment of final dividend for the year ending 30 June 2023	**30 November 2023**

Financial Highlights

	31 December 2022	30 June 2022	% change
Capital return			
Total assets[A]	**£495.5m**	£538.6m	–8.0%
Equity shareholders' funds	**£470.5m**	£498.6m	–5.6%
Market capitalisation	**£423.6m**	£425.9m	–0.5%
Net asset value per share[B]	**513.25p**	530.37p	–3.2%
Share price	**462.00p**	453.00p	+2.0%
Discount to net asset value[C]	**10.0%**	14.6%	
Net gearing[C]	**1.1%**	5.1%	
Reference index	**5,406.82**	5,520.20	–2.1%
Dividends and earnings			
Revenue return per Ordinary share[D]	**5.32p**	4.26p	+24.9%
Interim dividend per share	**3.00p**	2.70p	+11.1%
Operating costs			
Ongoing charges ratio[CF]	**0.94%[E]**	0.82%	

[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 2022 is for the six months to that date. Figure for 30 June 2022 is for the six months to 31 December 2021.
[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 2023.
[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.

"The issues that made the headlines in the first half of 2022, including the war in Ukraine and the cost of living crisis, have persisted. This has made a difficult backdrop against which to be an investor in UK smaller companies."

Chairman's Statement

Performance

The issues that made the headlines in the first half of 2022, including the war in Ukraine and the cost of living crisis, have persisted. This has made a difficult backdrop against which to be an investor in UK smaller companies and the performance of the Company reflects this. The Company's net asset value ("NAV") total return was -2.2% for the six months to 31 December 2022, while the share price produced a positive total return of 3.3%. The difference between these returns is a consequence of the movement in the discount, which narrowed from 14.6% on 30 June 2022 to 10.0% at the end of the period.

The total return of the Company's reference index, the Numis Smaller Companies plus AIM (ex investment companies) Index (the "Reference Index") was almost exactly half way between these two returns at -0.6%. If we drill into the numbers more closely, we can see that while the NAV fell in value in five of the first six months in 2022, it only fell in three of the months in the second half of the year and most of the negativity was over the summer. This indication of a more stable market environment is welcome, but the UK economy in which our investee companies operate remains fragile.

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

Earnings and Dividend

The revenue earnings per share ("EPS") for the six months to 31 December 2022 increased by 24.9% to 5.32p (2021: 4.26p), with underlying dividends per share from investee companies rising by 9.1% compared to the same period last year. This time last year we reported an almost identical increase in EPS and attributed this to the lower prior year figure, a result of the impact of Covid on profitability across the market. This year, we can point to the increase in confidence in the management of investee companies given that they have been able to improve their distributions to shareholders.

The continued recovery in income and earnings is very welcome and, while recognising that there remains a degree of uncertainty in the outlook for the UK economy, the Board has concluded that the earnings forecasts enable it to declare an increased interim dividend of 3.00p per share (2022: 2.70p per share) which will be paid on 14 April 2023 to shareholders on the register on 17 March 2023 with an associated ex-dividend date of 16 March 2023.

Gearing

At the end of the period gearing, net of cash, was 1.1% (30 June 2022: 5.1%). During the period, the Company entered into a new 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 the lender's approval, of up to an additional £25 million. The Company drew £25 million of the RCF on 1 November 2022 and used the proceeds drawn to repay, in full, the former term loan which matured on that date. At 31 December 2022, £25 million was drawn down under the RCF at an interest rate of 4.73%.

Total returns to 31 December 2022	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[A]	–2.2	–36.8	–14.6	+7.2	+150.9
Share price[A]	+3.3	–38.4	–24.3	+0.2	+126.4
Reference Index[B]	–0.6	–21.9	–1.7	+1.1	+99.5
Peer Group weighted average (NAV)	+2.4	–23.6	–2.0	+8.9	+140.4
Peer Group weighted average (share price)	+6.0	–25.6	–9.2	+10.6	+159.3

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

Discount Control and Share Buy Backs

At 31 December 2022 the Company's shares were trading at a discount of 10.0% to its NAV per share, including income with debt at fair value. This was narrower than the 14.6% discount at which the shares were trading at the end of June 2022. The Board continues to operate a discount control mechanism which targets a maximum discount of the share price to the cum-income NAV of 8% under normal market conditions. The width of the discount during the period, which was a feature shared by many of the Company's peers, illustrated the market's aversion to UK smaller companies. The Company was active in the market on most days and bought back 2.3 million shares (2.5% of the opening issued share capital) at a weighted average price of 466.1p, which equated to an average discount of 12.0%. The accretion to the NAV per share as a result of buy backs was approximately 1.5p.

At the time of writing, the Company's shares are trading at an estimated discount of 12.5%.

Management Team

After more than 19 years as the portfolio manager to the Company, and 37 years at Standard Life and abrdn, Harry Nimmo retired on 31 December 2022. On behalf of the Board and shareholders, I would like to express my thanks to Harry for all that he has done to make the Company what it is today. While the last 12 months have been hard from a performance perspective, the Company has benefitted hugely from Harry's stewardship over many years. We all wish him well for a long and happy retirement. Harry's successor, Abby Glennie, has been working alongside him on the Company's portfolio for over three years and we are confident that she will build on his long term track record. We look forward to working with her and Amanda Yeaman over the coming years.

Outlook

The UK economy remains very fragile having flatlined over the final quarter of 2022. Some of the most difficult consequences of the pandemic, such as the supply chain issues, have now eased but others, including the squeeze on skilled labour, are set to continue. High energy prices and the cost of living crisis are causing weaker demand in key economic sectors. The forecast recession may well be shallow, but interest rates are not expected to peak until at least August, causing demanding economic conditions for our investee companies for at least the first half of the year and quite likely all of 2023.

That said, the market typically anticipates well ahead and we should expect that this is baked into the share prices of our portfolio companies and that the worst might be behind us. Some of the adverse and often somewhat indiscriminate market reaction to growth companies may well start to reverse. The increased gap between the valuation of smaller UK companies and their large cap brethren also provides scope for a re-rating of smaller companies as the economic backdrop improves.

Whilst mindful of the macro economic backdrop, our fund managers are continuing to determine the shape of the portfolio through their bottom-up stock selection process, which focuses on high quality, strongly financed companies with sustainable growth prospects. The Board, like our fund managers, believes the current period offers significant opportunity to invest in companies with strong growth potential at a relatively low point in their valuation cycle.

Liz Airey
Chairman
2 March 2023

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 2022 and comprise the following risk categories:

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

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 2022, 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 2022 which shows net current liabilities of £6.6 million at that date. 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
2 March 2023

Investment Manager's Review

The net asset value ("NAV") total return for the Company for the six months to 31 December 2022 was -2.2% while the share price produced a positive total return of 3.3%. By comparison, the UK smaller companies sector as represented by the Numis Smaller Companies plus AIM (ex investment companies) Index (the "Reference Index") delivered a total return of -0.6%. abrdn has managed the Company since 1 September 2003.

Equity Markets

After a very challenging first half of 2022, we had hoped for a more stable backdrop going into this financial year. However, markets have continued to be dominated by top-down macro factors rather than bottom-up company fundamentals. The continued war in Ukraine, combined with the very hawkish pivot of central banks in the US and the UK meant that any hopes for a steady recovery from the pandemic were no longer likely to come to fruition.

Markets suffered a number of macroeconomic shocks, most notably the continued rise of inflation, which has been higher and longer than economists and policy makers were predicting earlier in the year. In the US and UK, the annual rate of inflation reached 40 year highs in 2022. Large increases in the prices of food and energy sparked fears about a 'cost-of-living' crisis and declines in household disposable incomes, with the biggest pinch being felt at lower income tiers given their higher exposure in the mix to energy, food and fuel, which are all highly inflationary. Unemployment rates in the UK have remained low however, helping limit the potential consumer squeeze for now. For businesses, investors worried that inflation would result in higher input costs and potentially lower profit margins leading to a reduction in company earnings.

The UK also saw a great deal of political upheaval with the short-lived appointment of Liz Truss as Prime Minister and her replacement by Rishi Sunak, following her poorly received mini-budget which put further pressure on UK markets. We saw some stability as both Liz Truss and Chancellor Kwarteng were replaced by Rishi Sunak and Jeremy Hunt respectively and they reversed most of their predecessors' actions. This embarrassment for the UK, however, seemed to put a further dampener on overseas investors' appetite to invest in UK equities. We have seen interest rates rise by the most in 33 years, as the government acts to combat the high levels of inflation, but this will also have an effect on disposable incomes for many consumers, given the impact on mortgage payments over time as the cost of their variable-rate loans increases quickly, or as they roll off fixed rates.

In October, analysts delivered the highest proportion of earnings downgrades since June 2020 and the skew across the market cap bands was pronounced. The FTSE 100 Index recorded net upgrades, thanks to the presence of a number of global companies that benefit from a strong US Dollar, especially in the consumer staples groups. In contrast, companies in the FTSE 250 Index suffered twice as many downgrades as upgrades. Encouragingly, however, in the period, the market felt more rational in its share price response to results and earnings changes.

The differing performance of the large and small cap indices is mirrored in fund flows. Large cap funds suffered small outflows during 2022, at approximately 2% of assets under management ("AUM"), but mid-cap funds tracking the FTSE 250 Index saw outflows of approximately 18% of AUM and small cap funds saw outflows of approximately 12%. Small and mid cap fund managers lost assets not because of their own actions but because of the general market movements.

After a very challenging first half of 2022, we had hoped for a more stable backdrop going into this financial year. However, markets have continued to be dominated by top-down macro factors rather than bottom-up company fundamentals.

Value stocks continued to perform relatively well during the period, having strongly outperformed quality and growth in the early part of 2022. To some extent, this shift could be seen as a reversal of pandemic trends, when growth companies, such as internet and technology stocks, were in demand. In terms of currencies, the US Dollar was a standout performer, although it started to ease later in the period. The result was a UK market that was essentially divided into two camps. The FTSE 100 Index, with its large exposure to oil & gas, banks and mining companies, as well as overseas earnings, continued to hold up well relative to the FTSE 250 and Small Cap indices.

October and November saw a strong rebound in the FTSE 250 Index, with smaller companies strongly outperforming the FTSE 100 Index over that period. Historically, it has been typical to see the small and mid cap area of the market lead in times of market recovery. Not surprisingly, however, the market strength faded slightly into the turn of the year, with continuing macro uncertainty, inflation remaining stubbornly high and the consumer squeeze really coming to pass, as well as continued earnings downgrades across the smaller companies universe.

Equity markets came to a standstill during the period, and earlier in 2022, with practically no IPOs in the year. Similarly, M&A volumes declined substantially, due mainly to private equity firms deploying less capital than in previous years as well as challenges posed by the rising cost of debt. There were limited bids for UK companies, and no bids for companies in the portfolio.

It is notable that the early part of 2023 has shown more robust consumer spending and sentiment than the market expected, and the Bank of England has softened its outlook on the length and depth of a recession. Even in a recession, there are still opportunities within the market. Stock picking becomes important and our Quality, Growth and Momentum process has historically performed relatively well against a backdrop such as this.

Performance

The period in question was a tough one for our process, and the portfolio underperformed the benchmark as a result, although we were pleased to see better relative performance during the fourth quarter of 2022. Despite a strong understanding across markets since before summer that the UK would enter a recession, it took until October for the market to show any focus on quality of businesses. 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 in the larger holdings.

At the time of writing, in the current top 10 holdings, six had upgrades to earnings expectations when they last reported, with the other four having no changes.

The five leading performers during the period were as follows:

Kainos – The company showed its strong market resilience and pricing power. Despite inflationary pressures, the demand across the corporate sector and government for its services is so strong that it was able to pass on inflation and protect its margins.

4imprint – Demand for promotional products in the US rose as the market recovered from Covid, and in a fragmented market 4imprint took market share aided by its investment in marketing, which drove repeat customers and strong financial returns. The company delivered consistent upgrades to earnings expectations.

Alpha Financial Markets – This consultant to the asset management industry is beating expectations as it grows both by sector and geographically, particularly into insurance and alternative investments, as well as strongly within the US. It has pricing power to protect itself from inflation and, with the ongoing structural and regulatory burdens on its industries, its services remain consistently in demand.

Ergomed – There has been consistent growth from Ergomed over the past year, with its focus on being exposed to the faster growing segments in the CRO (contract research organisation) market of oncology and rare disease, combining well with the very defensive areas in PrimeVigilance (drug safety monitoring), providing strong revenue visibility.

Diploma – Despite operating in more cyclical industries, Diploma, the added value distributor of technical products and services, has proven that its niches have remained more resilient, it has pricing power, and its value-add proposition helps retain attractive margins.

The period in question was a tough one for our process although we were pleased to see better relative performance during the fourth quarter of 2022.

The five worst performers during the period were as follows:

Hilton Food – The company has experienced disappointing and surprising earnings downgrades where, despite its strong contracts with cost pass through mechanisms, it was unable to pass through all the inflationary elements of high salmon protein pricing. This drove margin and earnings downgrades, but doesn't impact our positive longer term investment case for the company.

Mortgage Advice Bureau – Mortgage Advice Bureau was a victim of Kwasi Kwarteng's mini budget, which had harsh and rapid impacts on the housing market. It saw activity fall sharply, as banks held back mortgage approvals and products due to uncertainty. However, we are confident that market environments are settling down and that Mortgage Advice Bureau, with its market leading proposition, will continue to gain market share.

Alliance Pharma – We are disappointed in what should have been a defensive pharmaceuticals business, with Chinese Covid restrictions hindering exports, disrupted distributor orders, and a Competition Market Authority investigation. We have exited this holding.

Marshalls – Whilst a high quality business in its industry, Marshalls is not exempt from market downturns and has seen consumer spending drive lower demand in its residential exposure. Demand within the infrastructure business remains solid. Marshalls has a strong operational track record, and there is a lot it can do on efficiencies and margin protection in a downturn, which supports our continued holding.

XP Power – The company had a tough year with supply-chain challenges, and margin pressure from cost increases, compounded by losing a US court case related to a historical acquisition. These aspects pushed the balance sheet leverage higher, which was a concern for the market.

Dealing and Activity

Turnover remained modest during the period, in line with longer-term turnover levels.

Four new holdings were added to the portfolio; **Paragon Banking, Coats, Craneware** and **Smart Metering Systems.**

Paragon Banking is a specialist buy-to-let lender in the UK, with strong credit quality and resilient stress testing in tougher macro environments. Compared to previous cycles, Paragon has a banking license, and is funded by retail deposits, making it a beneficiary of wider spreads as a result of the increase in interest rates. Paragon is a defensive, well capitalised secured specialist lender benefitting from highly attractive market economics. A structural under supply of housing in the UK, allied to increasing affordability constraints for the would be first time buyer, underscore future rental demand, with professional multi property landlords dominating growth. Paragon is highly capital generative which in turn supports a rolling buy back programme. It has returned capital of approximately £675 million to shareholders since 2015, which is 50% of its current market capitalisation. The valuation remains attractive, with a 5.5% dividend yield.

We added a holding in **Coats**, a global market leader in the manufacture of sewing thread and supplies. The business has a leading share of more than 20% in the apparel and footwear thread market, partly thanks to its global scale, colour matching technology and longstanding reputation for quality products. Coats has a strong track record of managing its cost base, through increased manufacturing automation, a higher value mix from greater performance materials thread sales, and other self-help initiatives. While the current macroeconomic backdrop could present near term risks, we are positive on the longer term opportunities. Recent investment in inventory management, digitalisation and ESG credentials has driven further market share gains, as an enabler of moving textile industries towards sustainability. The business is poised for the delivery of strategic projects, which look to optimise the portfolio and footprint. The shares yield 2.9%. More detail can be found in the Case Study on page 18.

Craneware, the Edinburgh-based healthcare technology business, is a leader in the US hospital market for revenue integrity solutions. These are embedded in hospital operational processes, helping improve the financial performance of these organisations. Craneware was co-founded by the CEO, Keith Neilson, in 1999. The business has grown organically and through bolt on acquisitions such as Sentry Data Systems in 2021. Its product development and cross selling opportunities help deliver growth, the revenue model provides strong visibility, and it retains attractive and sustainable margins. The shares yield 1.7%, which is attractive for a growth business in the technology sector.

Smart Metering Systems ("SMS") is a fully integrated energy infrastructure business, which both owns and manages meter assets, energy data, grid-scale batteries and other carbon reduction assets. The meters help consumers manage their energy usage and provide inflation linked and visible revenue streams. Inflation linkage has become particularly valuable in the current macro-economic climate. The ongoing roll out of smart meters is predicted to continue to 2025, providing a long term visible revenue stream, and limited need for additional capital. The newer and potentially high growth part of the business is grid like battery storage. The business has a growing pipeline with a huge forecast demand increase for these assets and SMS is well placed to keep a strong share given relationships and experience. We note the increasing debt levels expected over the next few years (from net cash currently), to fund the battery rollout. This is a business which should be able to support structural debt levels given the revenue generating asset base, as its private peers do. The dividend yield is 3.5%.

Investment Manager's Review

Continued

The portfolio is built on a bottom-up basis, whereby we select individual companies based on their fundamental prospects. Sector exposure is therefore an outcome of the stock selection process, rather than being the determinant of which companies are held in the portfolio.

Eleven holdings were exited in the period. **Hotel Chocolat** suffered from UK consumer weakness, and also stepping back from the expansion in US and Japan (where Covid in particular has been a hindrance to market penetration). This came at a time of investing in capacity, driving strong margin downgrades and hits to earnings. **Gooch & Housego** has seen earnings downgrades, impacts from labour and supply chain shortages, a change in CEO, and the need for investment. The holding in **Intermediate Capital** was sold due to concerns over the risks around end market weakness. **Jet2** has suffered many macro headwinds in recent years, and with the UK consumer squeeze increasing and pressure on holiday spend in 2023, during a time pricing needs to increase to cover inflationary pressures, we exited this holding for now. **Alliance Pharma** was exited following trading disappointments, Chinese export issues with Covid, and an investigation against the CEO from many years prior. **Big Yellow**, the self storage business, is somewhat impacted by weaker housing markets and higher interest rates given its balance sheet. **Watkin Jones** saw the mini budget impact its forward sales, highlighting to us the lumpiness of the business' revenue, and the lack of contracted visibility in tougher environments. **Inspecs** was exited after a weak update, where consumer weakness in Germany and France are the most recent pressures. **Gear4Music** was another consumer casualty, having had a strong Covid period from online dominance. **Molten Ventures**' shares struggled on the disconnect between private and listed valuations, and the pressures on the growth businesses in which it invests. Lastly, we sold the holding in **Moonpig** (although we did not fully exit the holding until after the period end) where the progress on the gifting side of the business has been lacklustre, and in a tougher consumer environment we see this remaining challenging in the near term. Moonpig was not a dividend payer.

Significant purchases included topping up holdings in **Serica Energy, CVS, 4imprint** and **Gamma Communications.** We trimmed holdings in **GB Group, Future, Impax Asset Management, Liontrust Asset Management, Safestore, Sirius Real Estate, Marshalls** and **Focusrite.** Other major sales represented taking profits in the largest holdings, **Telecom Plus** and **Kainos,** controlling position sizes as these share prices outperformed.

Sector Exposure

The portfolio is built on a bottom-up basis, whereby we select individual companies based on their fundamental prospects. Sector exposure is therefore an outcome of the stock selection process, rather than being the determinant of which companies are held in the portfolio. The highest sector exposures at the time of writing are Support Services, Media, Financial Services, Software, Leisure Goods and Telecoms. The exposure to Communication Services and Healthcare increased, through performance and top ups. The exposure to Real Estate fell, with reductions in the holdings of companies where we saw cyclical and interest rate risks, whilst the exposure to Consumer Staples fell with a weak performance from **Hilton Food**, and we reduced the size of that holding. The exposure to Resources remains low, although we did add a holding in **Serica Energy** in the previous period. We also have limited exposure to the Retail and Real Estate sectors.

Discount

At 31 December 2022 the cum-income discount to NAV stood at 10.0%. The simple average discount for the seven close peers was 8.5%.

Gearing

The level of net gearing at 31 December 2022 was 1.1%. Gearing is likely to remain at or around current levels for the time being, reflecting our more cautious shorter term concerns, but we continue to believe strongly in the medium to long-term prospects for smaller companies. We repaid some of the borrowings during the period, taking a more conservative view towards equity markets over the short term, with the ability to increase gearing again when we see the right opportunity.

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 top ten holdings, the rate of dividend growth has accelerated, excluding the outlier of **4imprint** which has exceptional growth, having had Covid dividend pauses, and **Ergomed**, which is the only top 10 holding that doesn't pay a dividend. The other eight names in the top 10 are averaging 26% dividend growth forecasts for 2022.

Ergomed, **Watches of Switzerland**, **Marlowe**, **Big Technologies**, **Team 17**, **Auction Technology** and **Motorpoint** are the only holdings in the portfolio which do not pay dividends. The percentage of non-payers has remained around 12% of the portfolio, the same as at the end of the last period. Given the strength of the income stream from the portfolio as a whole, we are comfortable holding some exposure to non dividend payers.

Outlook

UK equity valuations have derated significantly and are at attractive levels relative to other regions. Within that, UK smaller companies looks very attractive relative to large companies, with the strong sector focus in the FTSE 100 Index combined with the "risk-off" trade driving significant divergence in index returns during 2022. During the last couple of months of the period the market tested some of these levels and we saw a strong bounce in UK smaller companies through October and November. With greater political stability in the UK, and also a solid degree of overseas revenue exposure within the market, we are starting to see international investors look towards their UK allocations, which have been rock bottom for some time.

We caveat this with some macro caution - we are still seeing many areas of challenge, including inflation, consumer squeeze, China supply uncertainty - and many of these factors might be testing again over the period ahead. We were not surprised to see markets retreat in December, and believe we may see that continue before there is a more sustained recovery. The war in Ukraine remains an overhang for markets, particularly given its inflationary impacts, and, for social and humanitarian reasons more than any, we would be pleased to see a peaceful resolution.

Every cycle is different, but typically in the UK we wouldn't expect to see the market recover until nearer the trough in earnings. However, many aspects of this cycle have been very different and the UK didn't enter it from peak earnings given Brexit sentiment and GDP growth relative to other regions over recent years. Therefore, there are reasons to believe that UK earnings could be nearer the trough than other geographies, and that UK markets could recover earlier in this cycle than we have often seen historically.

We would hope for a more settled environment this year, where company focus returns to markets, and share price returns are less dependent on top down macro factors.

Meanwhile, in a recession, we think our Quality focus will prove relatively resilient. We are seeing broad areas of earnings downgrades across the market, but lots of areas of resilience and strength in the portfolio. This is the Quality focus, as well as the companies being more self-fulfilling in their growth strategies - increasingly valuable we believe when growth becomes scarcer. Lastly, with the de-rating of growth businesses through 2022, many of the Company's quality growth businesses are trading on significantly lower valuations than historically, and have been taking part strongly in the recent market recovery. This gives us some confidence over the relative performance potential of the portfolio in a market recovery,

At this early stage in a recession, we continue to believe that many cheaper value cyclical businesses will experience earnings pressures over the short term. Each cycle is different, and with the dynamics of the current environment, we would be surprised to see any market recovery over the coming period being led by the most cyclical stocks.

Investment Manager's Review

Continued

As we move through 2023 it remains a year of uncertainty, but we feel a lot of the most painful changes in market conditions are behind us, seen in early 2022. We would hope for a more settled environment this year, where company focus returns to markets, and share price returns are less dependent on top down macro factors.

Abby Glennie and Amanda Yeaman,
abrdn
2 March 2023

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 19 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 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 2022

Alpha Financial Markets Consulting

A founder-led consultancy firm, with a focus on asset management and insurance industries. It is UK and US focused and is growing through organic growth and complementary accretive bolt on acquisitions.

Telecom Plus

A multi-utility provider to UK consumers, operating through a direct sales channel.

Kainos

A digital services company offering information technology products and services to clients in a range of markets, including government, healthcare and financial services.

4imprint

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

Ergomed

Provides specialised services to the pharma industry, around clinical research and regulatory demands.

JTC

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

Cranswick

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

Diploma

A global business supplying specialised technical product and services, with focus on 3 sectors; Life Sciences, Seals and Controls.

discoverIE

Designs and manufactures innovative electronic components, used in industrial applications. Its four target markets have regulatory and sustainability drivers; renewable energy, transportation, medical and industrial automation & connectivity.

Next 15 Communications

A digital communications business with global exposure, offering a range of services to its customer base, including many blue chip companies.

Investment Portfolio

At 31 December 2022

Company	Industry	Market value £'000	Total assets %
Alpha Financial Markets Consulting	Industrial Support Services	23,411	4.7
Telecom Plus	Telecommunications Service Providers	23,179	4.6
Kainos	Software and Computer Services	22,597	4.5
4imprint	Media	17,199	3.5
Ergomed	Pharmaceuticals and Biotechnology	16,767	3.4
JTC	Investment Banking and Brokerage Services	15,462	3.1
Cranswick	Food Producers	14,237	2.9
Diploma	Industrial Support Services	14,190	2.9
discoverIE	Technology Hardware and Equipment	13,731	2.8
Next 15 Communications	Media	13,724	2.8
Top ten investments		**174,497**	**35.2**
Safestore	Real Estate Investment Trusts	12,937	2.6
Watches of Switzerland	Personal Goods	12,823	2.6
CVS	Consumer Services	12,793	2.6
Gamma Communications	Telecommunications Service Providers	12,156	2.5
Bytes Technology	Software and Computer Services	11,956	2.4
Big Technologies	Software and Computer Services	11,095	2.2
Hilton Food	Food Producers	10,298	2.1
Games Workshop	Leisure Goods	9,957	2.0
Impax Asset Management	Investment Banking and Brokerage Services	9,797	2.0
Hill & Smith	Industrial Metals and Mining	9,682	2.0
Top twenty investments		**287,991**	**58.2**
Hollywood Bowl	Travel and Leisure	9,531	1.9
Morgan Sindall	Construction and Materials	9,180	1.8
Robert Walters	Industrial Support Services	9,074	1.8
Global Data	Media	8,623	1.7
Team 17	Leisure Goods	8,396	1.7
Auction Technology	Software and Computer Services	8,300	1.7
Focusrite	Leisure Goods	8,195	1.7
Serica Energy	Oil, Gas and Coal	8,069	1.6
Craneware	Health Care Providers	7,981	1.6
Future	Media	7,957	1.6
Top thirty investments		**373,297**	**75.3**

At 31 December 2022

Company	Industry	Market value £'000	Total assets %
XP Power	Electronic and Electrical Equipment	7,444	1.5
Treatt	Chemicals	7,361	1.5
Coats	General Industrials	7,329	1.5
Midwich	Industrial Support Services	7,222	1.4
Sirius Real Estate	Real Estate Investment and Services	6,395	1.3
Mortgage Advice Bureau	Finance & Credit Services	6,274	1.3
Marshalls	Construction and Materials	6,239	1.3
AJ Bell	Investment Banking and Brokerage Services	6,223	1.2
Smart Metering Systems	Industrial Support Services	5,937	1.2
Liontrust Asset Management	Investment Banking and Brokerage Services	5,839	1.2
Top forty investments		**439,560**	**88.7**
Paragon Banking	Investment Banking and Brokerage Services	5,508	1.1
Mattioli Woods	Investment Banking and Brokerage Services	5,331	1.1
Henry Boot	Real Estate Investment and Services	4,968	1.0
LBG Media	Media	3,945	0.8
Marlowe	Industrial Support Services	3,673	0.8
GB Group	Software and Computer Services	3,203	0.6
Tatton Asset Management	Investment Banking and Brokerage Services	3,107	0.6
YouGov	Media	2,723	0.6
Volution	Construction and Materials	2,666	0.5
Motorpoint	Retailers	2,082	0.4
Top fifty investments		**476,766**	**96.2**
Moonpig	Retailers	365	0.1
Total portfolio		**477,131**	**96.3**
Net current assets[A]		**18,334**	**3.7**
Total assets		**495,465**	**100.0**

[A] Current assets less current liabilities. Excludes bank loans of £24,924,000.

Investment Case Study

Coats

Coats is a global market leader in the manufacture of industrial thread and supplies, headquartered in the UK and operating with around 18,000 employees across some 50 countries on six continents. The company has outstanding ESG credentials. Its business aligns strongly with the UN Sustainable Development Goals, particularly around Goal 12: Responsible Consumption and Production. Practices right across the business are focused on ESG aspects, with challenging targets having been set. Coats is A rated by MSCI.

Coats has a leading share of the apparel and footwear thread market, partly thanks to its global scale, colour-matching technology and longstanding reputation for quality products. It has a blue-chip base of customers across the retail brands, and works closely with them in terms of product evolution and development. Customers will often specify use of Coats brands to their Tier 1 suppliers, and many are dependent on Coats; Adidas, for example, sources 90% of its threads from Coats. In this industry scale matters, and having locations close to customers' factories is key; Coats is over twice the size of its nearest competitor. The move to re-shoring, and high freight costs, is a favourable dynamic for the company.

Coats has a strong track record of managing its cost base, through increased manufacturing automation, a higher value mix from greater performance materials, and other self-help initiatives. While the current macroeconomic backdrop of consumer squeeze could present near-term risks, the Investment Manager is positive on the longer-term opportunities.

The Investment Manager initiated the holding in August 2022 through participating in the placing to acquire German based Rhenoflex, a manufacturer of footwear components for the athleisure and sports footwear market. This was the company's second deal in this category, to bolster the newly-created Footwear segment. This is an attractive category, with global growth of approximately 8% per annum and gives Coats a market leadership position of more than 20%. The company has a dividend yield around 2.7%.

The Investment Manager believes that the dominant market share, strong relationships with brands, innovation and development of products, strong strategic projects and margin potential, and outstanding ESG credentials combine to provide Coats with a strong medium-term investment case.

Condensed Statement of Comprehensive Income (unaudited)

		Six months ended 31 December 2022			Six months ended 31 December 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net (losses)/gains on investments held at fair value			**(15,431)**	**(15,431)**		86,500	86,500
Income	2	**6,082**	**–**	**6,082**	5,397	–	5,397
Investment management fee		**(431)**	**(1,292)**	**(1,723)**	(669)	(2,007)	(2,676)
Administrative expenses		**(601)**	**–**	**(601)**	(427)	–	(427)
Net return before finance costs and taxation		**5,050**	**(16,723)**	**(11,673)**	4,301	84,493	88,794
Finance costs		**(117)**	**(351)**	**(468)**	(140)	(418)	(558)
Return before taxation		**4,933**	**(17,074)**	**(12,141)**	4,161	84,075	88,236
Taxation	3	**–**	**–**	**–**	–	–	–
Return after taxation		**4,933**	**(17,074)**	**(12,141)**	4,161	84,075	88,236
Return per Ordinary share (pence)	5	**5.32**	**(18.40)**	**(13.08)**	4.26	86.03	90.29

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 2022 £'000	As at 30 June 2022 £'000
Non-current assets			
Investments held at fair value through profit or loss		**477,131**	524,137
Current assets			
Debtors		**1,064**	2,413
Investments in AAA-rated money-market funds		**19,251**	14,414
Cash and short-term deposits		**366**	582
		20,681	17,409
Current liabilities			
Creditors: amounts falling due within one year		**(2,347)**	(2,947)
Bank loan	8	**(24,924)**	(39,988)
		(27,271)	(42,935)
Net current liabilities		**(6,590)**	(25,526)
Net assets		**470,541**	498,611
Capital and reserves			
Called-up share capital		**26,041**	26,041
Share premium account		**170,146**	170,146
Capital reserve		**265,613**	293,616
Revenue reserve		**8,741**	8,808
Equity shareholders' funds		**470,541**	498,611
Net asset value per Ordinary share (pence)	7	**513.25**	530.37

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

Condensed Statement of Changes in Equity (unaudited)

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**

Six months ended 31 December 2021

	Share capital £'000	Share premium account £'000	Special reserve[A] £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2021	26,041	170,146	20,132	504,395	7,532	728,246
Return after taxation	–	–	–	84,075	4,161	88,236
Buyback of shares into Treasury	–	–	(13,801)	–	–	(13,801)
Dividends paid (see note 4)	–	–	–	–	(4,884)	(4,884)
Balance at 31 December 2021	26,041	170,146	6,331	588,470	6,809	797,797

[A] The special reserve was extinguished during the year ended 30 June 2022.

The capital reserve at 31 December 2022 is split between realised of £170,473,000 and unrealised of £95,140,000 (31 December 2021 – realised £189,322,000 and unrealised £399,148,000).

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

Condensed Statement of Cash Flows (unaudited)

	Six months ended 31 December 2022 £'000	Six months ended 31 December 2021 £'000
Operating activities		
Net return before finance costs and taxation	**(11,673)**	88,794
Adjustment for:		
Losses/(gains) on investments	**15,431**	(86,500)
Decrease in accrued income	**1,665**	360
Increase in other debtors	**–**	(2)
(Decrease)/increase in other creditors	**(399)**	117
Net cash inflow from operating activities	**5,024**	2,769
Investing activities		
Purchases of investments	**(43,368)**	(52,962)
Sales of investments	**74,458**	63,504
Purchases of AAA-rated money-market funds	**(65,871)**	(76,759)
Sales of AAA-rated money-market funds	**61,034**	82,427
Net cash inflow from investing activities	**26,253**	16,210
Financing activities		
Interest paid	**(484)**	(390)
Equity dividends paid	**(5,000)**	(4,884)
Buyback of shares	**(10,929)**	(13,801)
Repayment of loan	**(15,080)**	–
Net cash outflow from financing activities	**(31,493)**	(19,075)
Decrease in cash and short-term deposits	**(216)**	(96)
Analysis of changes in cash during the period		
Opening cash and short-term deposits	**582**	95
Decrease in cash and short-term deposits as above	**(216)**	(96)
Closing cash and short-term deposits	**366**	(1)

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

Notes to the Financial Statements (unaudited)

For the period ended 31 December 2022

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 2022. 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 2022 £'000	Six months ended 31 December 2021 £'000
Income from investments		
UK dividend income	**4,834**	4,341
Property income distributions	**602**	372
Overseas dividend income	**441**	674
	5,877	5,387
Interest income		
Interest from AAA-rated money-market funds	**199**	10
Bank interest	**6**	–
	205	10
Total income	**6,082**	5,397

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 2023 is 19% until 31 March 2023 and 25% thereafter.

4. Ordinary dividend on equity shares

	Six months ended 31 December 2022 £'000	Six months ended 31 December 2021 £'000
2022 final dividend of 5.40p per share (2021 - 5.00p)	**5,000**	4,884

Notes to the Financial Statements (unaudited)

Continued

5. Return per share

	Six months ended 31 December 2022 p	Six months ended 31 December 2021 p
Revenue return	**5.32**	4.26
Capital return	**(18.40)**	86.03
Total return	**(13.08)**	90.29

Weighted average number of Ordinary shares	**92,803,168**	97,723,664

The figures above are based on the following:

	Six months ended 31 December 2022 £'000	Six months ended 31 December 2021 £'000
Revenue return	**4,933**	4,161
Capital return	**(17,074)**	84,075
Total return	**(12,141)**	88,236

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 2022 £'000	Six months ended 31 December 2021 £'000
Purchases	**76**	130
Sales	**64**	42
	140	172

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 2022	As at 30 June 2022
Total shareholders' funds (£'000)	**470,541**	498,611
Number of Ordinary shares in issue at the period end[A]	**91,679,290**	94,012,047
Net asset value per share (pence)	**513.25**	530.37

[A] Excluding shares held in treasury.

During the six months ended 31 December 2022 the Company repurchased 2,332,757 Ordinary shares to be held in treasury (31 December 2021 – 1,873,583) at a cost of £10,929,000 (31 December 2021 – £13,801,000).

As at 31 December 2022 there were 91,679,290 Ordinary shares in issue (30 June 2022 – 94,012,047). There were also 12,485,132 Ordinary shares (30 June 2022 – 10,152,375) held in treasury.

8. Loans

On 1 November 2017 the Company entered into a 5 year £45,000,000 unsecured loan facility agreement with The Royal Bank of Scotland International Limited, which was subsequently increased to £65,000,000 effective 10 May 2021. The facility consisted of a five year fixed-rate term loan facility of £25,000,000 (the "Term Loan") and a revolving credit facility of £40,000,000.

On 1 November 2022, the Company entered into a new revolving credit facility of £40,000,000 (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 £25,000,000. The Company drew £25,000,000 of the RCF on 1 November 2022 and used the proceeds drawn to repay, in full, the existing Term Loan which matured on that date. At 31 December 2022 £25,000,00 was drawn down under the RCF at an interest rate of 4.73%.

The RCF is shown in the Condensed Statement of Financial Position net of unamortised expenses of £76,000 (30 June 2022 – Term Loan – £12,000).

9. Analysis of changes in net debt

	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)

	At 30 June 2021 £'000	Cash flows £'000	Non-cash movements £'000	At 31 December 2021 £'000
Cash and short-term deposits	95	(96)	–	(1)
Investments in AAA-rated money-market funds	22,636	(5,669)	–	16,967
Debt due in less than one year	(40,000)	–	(24,969)	(64,969)
Debt due after more than one year	(24,951)	–	24,951	–
Total net debt	(42,220)	(5,765)	(18)	(48,003)

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 2022 - 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 2022 - £477,131,000; 30 June 2022 - £524,137,000) have therefore been deemed as Level 1.

The investment in AAA rated money-market funds of £19,251,000 (30 June 2022 - £14,414,000) 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. During the six months ended 31 December 2022 the management fee paid to aFML was charged by applying a tiered rate of 0.85% to the first £250 million of net assets, 0.65% of net assets between £250 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 £1,723,000 (31 December 2021 – £2,676,000) of investment management fees were earned by aFML, with a balance of £1,723,000 (31 December 2021 – £1,359,000) due at the period end.

aFML also receives fees for secretarial and administrative services of £75,000 per annum exclusive of VAT.

During the period, fees of £37,000 (31 December 2021 – £38,000) 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 £38,000 (31 December 2021 – £68,000) exclusive of VAT.

The Manager also receives a separate promotional activities fee which during the period was based on an annual amount of £384,000 exclusive of VAT payable quarterly in arrears. During the period, fees of £192,000 (31 December 2021 – £100,000) exclusive of VAT were payable to the Manager, with a balance of £96,000 (31 December 2021 – £50,000) exclusive of VAT being due at the period end.

12. Subsequent events

Subsequent to the period end, the Company repurchased a further 1,221,072 Ordinary shares to be held in treasury at a cost of £5,681,000.

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 2022 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 2 March 2023.

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 2022	30 June 2022
Share price	a	**462.00p**	453.00p
Net Asset Value per share	b	**513.25p**	530.37p
Discount	(a/b)-1	**10.0%**	14.6%

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 2022 £'000	30 June 2022 £'000
Total borrowings	a	**(24,924)**	(39,988)
Cash and short-term deposits		**366**	582
Investments in AAA-rated money-market funds		**19,251**	14,414
Amounts due from brokers		**327**	11
Amounts payable to brokers		**(216)**	(385)
Total cash and cash equivalents	b	**19,728**	14,622
Net gearing (borrowings less cash & cash equivalents)	c=a+b	**(5,196)**	(25,366)
Shareholders' funds	d	**470,541**	498,611
Net gearing (borrowings less cash & cash equivalents)	e=c/d	**1.1%**	5.1%

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 2022 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 2023.

		31 December 2022[A] £'000	30 June 2022[B] £'000
Investment management fees	a	**3,537**	4,759
Administrative expenses	b	**1,017**	889
Less: non-recurring charges[C]	c	**–**	(6)
Ongoing charges	d=a+b+c	**4,554**	5,642
Average net assets	e	**481,968**	696,750
Ongoing charges ratio (excluding look-through costs)	f=d/e	**0.94%**	0.81%
Look-through costs[D]	g	**–**	0.01%
Ongoing charges ratio (including look-through costs)	h=f+g	**0.94%**	0.82%

[A] Forecast for the year ending 30 June 2023 based on estimates as at 31 December 2022.
[B] For the year ended 30 June 2022.
[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 2022		NAV	Share price
Opening (p)	a	**530.37**	453.00
Closing (p)	b	**513.25**	462.00
(Decrease)/increase (p)	c=b-a	**-17.12**	9.00
% (decrease)/ increase	d=c/a	**-3.2%**	2.0%
Uplift from reinvestment of dividends[A]	e	**1.0%**	1.3%
Total return (decrease)/increase	d+e	**-2.2%**	3.3%

[A] The uplift from reinvestment of dividends assumes that the dividend of 5.40p paid by the Company in October 2022 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, end the call and contact our Customer Services Department.

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 Registrars (see Contact Addresses). Changes of address must be notified to the Registrars 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.**

For questions about an investment held through the abrdn Investment Plan for Children, Investment Trust Share Plan or Investment Trust ISA, please telephone the Manager's Customer Services Department on **0808 500 0040**, email **inv.trusts@abrdn.com** or write to:

abrdn Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB

Dividend Tax Allowance

The annual tax-free personal allowance for dividend income for UK investors is £2,000 for the 2022/23 tax year. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

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 retail clients, shares can be bought directly through the abrdn Investment Plan for Children, Investment Trust Share Plan or Investment Trust ISA, or through the many stockbroker platforms which offer the opportunity to acquire shares in investment companies.

abrdn Investment Plan for Children

abrdn operates an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management, including the Company. Anyone can invest in the Children's Plan (subject to the eligibility criteria as stated within the terms and conditions), including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors only pay Government Stamp Duty (currently 0.5%) on entry where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

abrdn Share Plan

abrdn operates a Share Plan (the "Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors only pay Government Stamp Duty (currently 0.5%) on entry where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

abrdn Investment Trust ISA

abrdn operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the 2022/23 tax year.

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

ISA Transfer

Investors can choose to transfer previous tax year investments to abrdn, which can be invested in the Company while retaining their ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Nominee Accounts and Voting Rights

All investments in the abrdn Investment Plan for Children, Investment Trust Share Plan and Investment Trust ISA are held in nominee accounts and investors are provided with the equivalent of full voting and other rights of share ownership.

How to Attend and Vote at Company Meetings

Investors who hold their shares in the Company via the abrdn Investment Plan for Children, Share Plan and Investment Trust ISA and who would like to attend and vote at Company meetings (including AGMs) will be sent for completion and return a Letter of Direction in connection with the relevant meeting.

Investors who hold their shares via another 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 the 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 issued by the Manager. **Investors can receive updates via email by registering on the home page on the website.**

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

Twitter:

@abrdnTrusts

LinkedIn:

abrdn Investment Trusts

Investor Information

Continued

Key Information Document ("KID")

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

Literature Request Service

For literature and application forms for abrdn's investment trust products, please contact us through: **invtrusts.co.uk**, telephone the Manager's Customer Services Department on **0808 500 4000** or write to:

abrdn Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB

Terms and Conditions

Terms and conditions for abrdn managed savings products can also be found on the Manager's website at: **invtrusts.co.uk.**

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking 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 the securities issued by the Company 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.

Online Dealing

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

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**

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 32 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
Caroline Ramsay
Tim Scholefield

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

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

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

Freephone: **0808 500 0040**
(open Monday to Friday, 9.00 a.m. to 5.00 p.m., excluding public holidays in England and Wales)

Email: **inv.trusts@abrdn.com**

Company Registration Number
SC145455 (Scotland)

Website
abrdnuksmallercompaniesgrowthtrust.co.uk

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

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

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

Legal Entity Identifier ("LEI")
213800UUKA68SHSJBE37

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

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