



# abr dn UK Smaller Companies Growth Trust plc

Alternative Investment Fund Managers Directive  
Pre-investment Disclosure Document

Article 23 AIFMD/Rule 3.2 FCA FUND Sourcebook

**abr dn.com**

24 August 2023



# abrdn UK Smaller Companies Growth Trust plc

This document is issued by abrdn Fund Managers Limited, as the alternative investment fund manager of abrdn UK Smaller Companies Growth Trust plc in order to make certain information available to prospective investors prior to such investors' investment in the Company, in accordance with the requirements of the FCA FUND Sourcebook implementing the Alternative Investment Fund Managers (Amendment) (EU Exit) Regulations 2019 in the United Kingdom and is being made available on the Company's website:

[abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk).

Defined terms used in this pre-investment disclosure document can be found in section 20 below.

## 1. **A description of the investment strategy, policy and objective of the Company, types of assets the Company may invest in, Investment techniques and Investment restrictions**

### **Objective**

To achieve long-term capital growth by investment in UK-quoted smaller companies.

Further Information about the Company's investment strategy, policy and objectives, the types of assets in which the Company may invest, the investment techniques and any investment restrictions are contained in the Annual Report which is available on the Company's website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk).

### **Investment policy**

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK-quoted smaller companies. The portfolio will normally comprise between 50-60 holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio).

Within the Company's Articles of Association, the maximum level of gearing is 100% of net assets. The Directors have set parameters of between 5% net cash and 25% net gearing (at the time of drawdown) for the level of gearing that can be employed in normal market conditions. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

The Directors have set additional guidelines in order to reduce the risk borne by the portfolio:

- Companies with a market capitalisation of below £50 million should not represent more than 5% of total assets.
- Companies involved in "Blue Sky" products should not represent more than 5% of total assets.
- No more than 50% of the portfolio should be invested in companies that are constituents of the FTSE AIM All-Share Index.

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process has evolved out of the Investment Manager's 'Focus on Change' philosophy and is led by Quality, Growth and Momentum. The Investment Manager's stock selection led investment process involves compiling a shortlist of potential investments using a proprietary screening tool known as "The Matrix" which reflects Quality, Growth and Momentum based factor analysis. The final portfolio is the result of intensive research and includes face to face meetings with senior management of these potential investments. This disciplined process has been employed for many years and has delivered a consistency of performance through economic and market cycles.

### **Investment philosophy and process**

The Board has identified that the abrdn Group has a proven and repeatable investment process, which has delivered returns to Shareholders over the last 17 years. The investment process adheres to the abrdn Group's 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 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 the abrdn Group's Environmental, Social and Governance principles.

The Company may only make material changes to its investment policy with the approval of Shareholders in the form of an ordinary resolution. In addition, any material changes to the Company's investment policy will require the prior approval of the Financial Conduct Authority.

### **Sustainable Finance Disclosure Regulation**

The Manager integrates sustainability risks and opportunities into its research, analysis and investment decision-making processes. The AIFM believes that the consideration of sustainability risks and opportunities can have a material impact on long-term returns for investors. The Company is managed using an investment process integrating environmental, social and governance ("ESG") factors but does not promote ESG characteristics or have specific sustainable investment objectives. This means that whilst ESG factors and risks are considered, they may or may not impact portfolio construction. The Manager's ESG integration requires, in addition to its inclusion in the investment decision making process, appropriate monitoring of sustainability considerations in risk management, portfolio monitoring, engagement and stewardship activities. The Manager also engages with policymakers on ESG and stewardship matters. Combining the integration of sustainability risks and opportunities with broader monitoring and engagement activities may affect the value of investments and therefore returns. Furthermore, investments within the Company's portfolio do not take into account the EU Taxonomy criteria for environmentally sustainable economic activities. Further information on the Manager's ESG integration approaches by asset classes can be found on its website.

### **Sustainability-related disclosure in line with EU SFDR**

The EU SFDR is designed to enable investors to better understand sustainability-related investment strategies, notably sustainability risk integration, promotion of environmental or social characteristics and pursuit of a sustainable investment objective. As part of this enhanced transparency, investment funds are subject to disclosure requirements depending on the degree of consideration given to sustainability and binding investment criteria. The disclosure requirements are defined in the following EU SFDR articles:

- Article 6 - Funds which integrate sustainability risks into their investment process but do not give binding commitments, do not promote environmental and/or social characteristics and do not have sustainable investments as their objective.
- Article 8- Funds that promote social and/or environmental characteristics, invest in companies that follow good governance, give binding commitments but do not have a sustainable investment objective.
- Article 9 - Funds that have sustainable investment or carbon reduction as their objective and give binding commitments.

The Company is subject to EU SFDR Article 6.

### **Principle adverse impact ("PAI") consideration**

Under EU SFDR all funds have to indicate whether they consider PAIs on sustainability factors and if so, how this is applied.

PAI indicators are metrics that measure the negative effects on environmental and social matters. With the exception of house exclusions, PAIs are not considered for Article 6 funds. Therefore, as an Article 6 fund, the Manager does not consider PAIs in relation to the Company.

### **EU Taxonomy**

The EU Taxonomy regulation provides a methodology to identify whether economic activities can be considered environmentally sustainable or not. The investments underlying an Article 6 Fund do not take into account the EU criteria for environmentally sustainable economic activities.

## 2. Principal and emerging risks and uncertainties

The Board carries out a regular review of the risk environment in which the Company operates, changes to the environment and individual risks. The Board also considers emerging risks which might affect the Company. During the year, the most significant risks were, political instability, inflation and increasing interest rates and the resultant volatility that this has created in global stock markets. In addition, the conflict in Ukraine has continued to create geo-political uncertainty which has further increased market risk and volatility.

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. The Board has carried out a robust assessment of the Company's principal and emerging risks, which include those that would threaten its business model, future performance, solvency, liquidity or reputation.

The principal risks and uncertainties faced by the Company are reviewed by the Audit Committee in the form of a risk matrix and the Committee also gives consideration to the emerging risks facing the Company.

The principal risks and uncertainties facing the Company at the current time, together with a description of the mitigating actions the Board has taken, are set out in the table below.

In terms of its appetite for risk, the Board has identified what it considers to be the key risks to which the Company is exposed and seeks to take a proportionate approach to the control of these risks. In particular, by considering the likelihood and impact of a specific risk, if the potential exposure is rated as Critical or Significant, the Board ensures that significant mitigation is in place to reduce the likelihood of occurrence whilst recognising that this may not be possible in all cases.

Risk	Mitigating Action
<b>Strategy</b> - the Company's objectives or the investment trust sector as a whole become unattractive to investors, leading to a fall in demand for the Company's shares.	Through regular updates from the Manager, the Board monitors the discount/ premium at which the Company's shares trade relative to the NAV. It also holds an annual strategy meeting and receives feedback from the Company's Stockbroker and Shareholders and updates from the Manager's investor relations team at Board meetings.
<b>Investment performance</b> - the appointment or continuing appointment of an investment manager with inadequate resources, skills or experience, the investment style or process being out of favour, or the adoption of inappropriate strategies in pursuit of the Company's objectives, could result in poor investment performance, a loss of value for shareholders and a widening discount.	<p>The Board meets the Manager on a regular basis and keeps investment performance under close review. Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Manager is carried out by the Management Engagement Committee on an annual basis.</p> <p>The Board sets and monitors the investment restrictions and guidelines and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process, ESG matters, risk management and application of the investment guidelines.</p>
<b>Key person risk</b> - a change in the key personnel involved in the investment management of the portfolio could impact on future investment performance and lead to loss of investor confidence.	<p>The Board discusses key person risk and succession planning with the Manager and Investment Manager on a regular basis.</p> <p>The Investment Manager employs a standardised investment process for the management of the portfolio. The well-resourced smaller companies team has grown in size over a number of years. These factors mitigate against the impact of the departure of any one member of the investment team.</p>

Risk	Mitigating Action
<p><b>Share price</b> - failure to manage the discount effectively or an inappropriate marketing strategy could lead to a fall in the share price relative to the NAV per share.</p>	<p>The Company operates a discount control mechanism and aims to maintain a discount level of less than 8% to the cum-income NAV under normal market conditions. The Directors undertake a programme of inviting major Shareholders to discuss issues of governance or strategy with the Chairman or Senior Independent Director. In addition, the Company participates in the Manager's investment trust promotional programme where the Manager has an annual programme of meetings with institutional Shareholders and reports back to the Board on these meetings.</p>
<p><b>Financial instruments</b> - insufficient oversight or controls over financial risks, including market price risk, liquidity risk and credit risk could result in losses to the Company.</p>	<p>As stated above, the Board sets investment guidelines and restrictions which are reviewed regularly and the Manager reports on compliance with them at Board meetings.</p>
<p><b>Financial obligations</b> - inadequate controls over financial record keeping and forecasting, the setting of an inappropriate gearing strategy or the breaching of loan covenants could result in the Company being unable to meet its financial obligations, losses to the Company and impact its ability to continue trading as a going concern.</p>	<p>At each Board meeting, the Board reviews management accounts and receives a report from the Administrator, detailing any breaches during the period under review. The Board sets gearing limits and monitors the level of gearing and compliance with the main financial covenants at Board meetings.</p> <p>The Audit Committee meets representatives from the Manager's Compliance and Internal Audit teams on at least an annual basis and discusses any findings and recommendations relevant to the Company.</p>
<p><b>Regulatory</b> - failure to comply with relevant laws and regulations could result in fines, loss of reputation and potential loss of investment trust status.</p>	<p>The Board receives updates on relevant changes in regulation from the Manager, industry bodies and external advisers and the Board and Audit Committee monitor compliance with regulations by review of checklists and internal control reports from the Manager. Directors keep up to date in a variety of ways, including attendance at training courses and seminars.</p>
<p><b>Operational</b> - the Company is dependent on third parties for the provision of all systems and services (in particular those of the Manager and the Depositary) and any control failures and gaps in their systems and services could result in a loss or damage to the Company.</p>	<p>The Audit Committee reviews reports from the Manager on its internal controls and risk management (including an annual ISAE Report) and considers assurances from all its other significant service providers on at least an annual basis, including on matters relating to business continuity and cyber security. The Audit Committee meets representatives from the Manager's Compliance and Internal Audit teams on at least an annual basis and discusses any findings and recommendations relevant to the Company. Written agreements are in place with all third party service providers.</p> <p>The Manager monitors closely the control environments and quality of services provided by third parties, including those of the Depositary, through service level agreements, regular meetings and key performance indicators, and provides periodic updates to the Board on this work. A formal appraisal of the Company's main third party service providers is carried out by the Management Engagement Committee on an annual basis.</p>

Risk	Mitigating Action
<p><b>Geopolitical</b> - the effects of geopolitical instability or change could have an adverse impact on stock markets and the value of the Company's investment portfolio.</p>	<p>Current geopolitical risks include the actions taken by governments in relation to climate change, the conflict in Ukraine and the impact of increased inflation and interest rates. The Investment Manager's focus on quality companies, the diversified nature of the portfolio and a managed level of gearing all serve to provide a degree of protection in times of market volatility.</p>

**Sustainability risk** - applying ESG and sustainability criteria in the investment process may result in the exclusion of assets in which the Company might otherwise invest. This may have a positive or negative impact on performance and may mean that the Company's performance profile differs to that of comparable funds in the market with a similar investment strategy but without applying ESG or sustainability criteria. Furthermore, the lack of common or harmonised definitions and labels regarding ESG and sustainability criteria may result in different approaches by managers when evaluating investments from an ESG aspect.

Details of the Company's key risks, together with their mitigating actions, are also set out in the Company's Annual Report, which may be accessed at [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk).

### 3. Risk management systems

The directors of abrdn Fund Managers Limited ("aFML") collectively assume responsibility for aFML's obligations under the AIFMD including monitoring the Company's risk profile during the year.

aFML, as a fully integrated member of the abrdn plc group of companies, receives a variety of services and support in the conduct of its business activities from the resources of the abrdn Group. aFML conducts its risk oversight - including in the conduct of its risk oversight function, through the operation of the abrdn Group's risk management processes and systems. Further details of the abrdn Group's risk management programme and systems are set out in the Appendix to this document.

### 4. Leverage

Leverage limits

The maximum leverage which the Manager is entitled to employ on behalf of the Company (expressed as a ratio to total assets) is:

Commitment Method	2.0x
Gross Method	3.0x

#### Types of leverage

Although leverage is often used as another term for gearing, under the AIFMD regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. It defines two types of leverage, the gross method and the commitment method. These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect 'netting' or 'hedging arrangements'. Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels under both methods and this is disclosed above. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's Articles of Association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes such as stock-lending). Typically, leverage will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the

market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities. Leverage is considered in terms of the Company's overall 'exposure' to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. aFML is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its net asset value with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- Include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities
- Exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond
- Include derivative instruments which are converted into the equivalent position in their underlying assets
- Exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known
- Include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed
- Include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable

Exposure values under the commitment method basis are calculated on a similar basis but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The calculation of leverage assumes that a leverage ratio of 1.00:1 equates to zero leverage. A ratio of less than 1.00:1 would mean that the portfolio included uninvested cash whilst a ratio above 1.00:1 would mean that the portfolio had leverage to the ratio amount above 1.00:1.

Where the Company invests in derivatives, it may be required to post assets as collateral. To the extent that the Company posts collateral to its counterparties, the counterparties have a security interest in the collateral and may, in certain circumstances, have the right to re-use that collateral.

## **5. Modification of Investment policy**

In accordance with the Financial Conduct Authority's ("FCA's") listing rules, any material change to the Company's investment policy will require the FCA's prior approval as well as the approval of Shareholders. In considering what is a material change the Company must have regard to the cumulative effect of any changes since Shareholders last had the opportunity to vote.

## **6. Contractual relationship between the Company and Investors, applicable law and the enforcement of judgements**

The Company is incorporated as a closed ended investment company under the provisions of the Companies Act 2006 (as amended) and its Shares are listed on the premium segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange.

Investors who acquire shares in the Company will do so subject to the Articles. The Articles are one of the Company's constitutional documents and contain the rights and restrictions attaching to the Company's shares. The Articles are governed by Scottish law and may only be amended by way of a special resolution. A Shareholder's liability to the Company will be limited to the value of the shares held by such Shareholder.

As the Company is incorporated in Scotland, it may not be possible for an investor located outside that jurisdiction to effect service of process upon the Company within the local jurisdiction in which that investor resides. All or a

substantial portion of the assets of the Company may be located outside of the local jurisdiction in which an investor resides and, as a result, it may not be possible to satisfy a judgment against the Company in such local jurisdiction or to enforce a judgment obtained in the local jurisdiction's courts against the Company.

A number of legal instruments provide for the recognition and enforcement in Scotland of judgments given in other states. Where no particular legal instrument applies, a judgment creditor may nevertheless have rights to seek to enforce a judgement under Scottish law.

Details on how to invest in abrdn UK Smaller Companies Growth Trust plc are set out in the Annual Report.

## **7. Information on the AIFM, Depositary and Service providers**

### **AIFM/Manager**

The Company has appointed abrdn Fund Managers Limited, which is a company limited by shares and incorporated in England and Wales, as its alternative investment fund manager. The Manager is a subsidiary of abrdn plc, a company incorporated in Scotland.

The Manager is authorised and regulated by the FCA as an alternative investment fund manager. Pursuant to the Management Agreement, the Manager provides investment management services (including portfolio management), risk management services and general administrative services to the Company.

The duties of the Manager also include (but are not limited to) the following:

- The proper valuation of the Company's assets and the calculation and publication of the Net Asset Value of the Company
- To review its delegation of the portfolio management function to the Investment Manager on an ongoing basis
- To ensure that appropriate and consistent procedures are established so that a proper and independent valuation of the assets of the Company can be performed
- To implement a risk management system to identify, measure and manage appropriately all risks relevant to the Company's investment strategies and to review this system on an annual basis
- To ensure that a single depositary is appointed to ensure, among other things, the proper monitoring of the Company's cash flows and the safe-keeping of the Company's assets that can be held in custody
- To employ an appropriate liquidity management system
- To adopt procedures enabling it to monitor the liquidity risk of the Company and ensure that the liquidity profile of the Company's investments complies with its underlying obligations
- To use adequate and appropriate human and technical resources necessary for the proper management of the Company
- To make available an annual report for the Company no later than four months following the end of its annual accounting period

The Management Agreement contains customary termination provisions and may, in normal circumstances, be terminated on six months' written notice by either the Company or the Manager. The Company may also terminate the Management Agreement immediately *inter alia* if the Manager ceases to maintain its regulatory permission to act as AIFM or if the Investment Manager ceases to maintain its regulatory permissions. In addition, either party may terminate the agreement immediately by notice upon the occurrence of certain events including the insolvency or winding up of the other party and a material breach of contract. The Company is also entitled to terminate the Manager's appointment on 30 days' notice following a change of control of the Manager.

The Manager has delegated the portfolio management of the Company to abrdn Investment Management Limited. Further details of the delegation arrangements are set out in paragraph 9 below.



## **Depositary**

The Company has appointed BNP Paribas Trust Corporation UK Limited to act as its depositary. Pursuant to the Depositary Agreement, the Depositary must carry out the duties specified in AIFMD, including:

- Safekeeping of the assets of the Company
- Cash monitoring and verifying the Company's cash flows
- Oversight of the Company and the Manager, including ensuring:
  - The value of the shares of the Company is calculated in accordance with applicable law and the relevant valuation procedures
  - The Net Asset Value of the Company's assets is calculated in accordance with applicable law and regulation and the Articles
  - The sale, issue, repurchase, redemption and cancellation of shares are carried out within usual time limits
  - Income distributions take place in accordance with the Company's constitutional documentation
  - All cash is booked in accounts opened with an appropriate deposit-taking institution in accordance with the provisions of AIFMD
  - Custody assets are physically held in safe-keeping
- Implementing:
  - Effective and proper procedures to reconcile all cash flow movements
  - Appropriate procedures to identify significant cash flows particularly those which would be inconsistent with the Company's operations
- Monitoring the Company's compliance with investment limits and Leverage requirements

In carrying out such functions the Depositary must act honestly, fairly, professionally, independently and in the interests of Shareholders.

The Depositary is liable to the Company and/or Shareholders for the loss of a financial instrument held in custody by the Depositary or a delegate, unless the Depositary is permitted to discharge and has discharged such liability under AIFMD and the Depositary Agreement. The Manager will inform investors of any changes with respect to the Depositary's liability for the loss of a financial instrument held in its custody. The Depositary is also liable to the Company and/or the Shareholders for all other losses suffered by them as a result of the Depositary's negligent and/or intentional failure to properly fulfil its duties.

Under the Depositary Agreement, the Company has indemnified the Depositary and its delegates against certain liabilities and expenses resulting from the Depositary's performance of its obligations under the agreement or where the Depositary has acted in accordance with authorised instructions, except where (i) the Depositary is in material breach of contract, is negligent or has intentionally failed to carry out its obligations, is in wilful default or there is fraud; or (ii) any affiliate of the Depositary has been negligent, has failed to take reasonable care or has been fraudulent in connection with the services provided.

The Company, the Manager and the Depositary may terminate the Depositary Agreement at any time by giving 90 days' notice in writing.

The Depositary may only be removed from office when a new depositary is appointed by the Company.

## **Auditor**

KPMG LLP has been appointed as the Company's auditor responsible for auditing the annual financial statements in accordance with auditing standards and, as appropriate, regulations, and for providing its report to the Company's Shareholders in the annual report and financial statements. In addition, applicable law and regulation may require other reports to be prepared for the Company and, as the appointed auditor of the Company; the Auditor will undertake such work under the auditor service agreement between the Company and the Auditor.

## **Registrar**

The registrar of the Company is Computershare Investors Services PLC which is responsible for keeping the register of Shareholders, which may be inspected at the Registrar's office at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, during normal business hours.

## **Stockbroker**

Winterflood Securities Limited has been appointed as the Company's stockbroker to provide the Company with corporate broking and associated financial advisory services.

Investors' rights against service providers will vary depending on a range of factors. If the relevant service provider is an authorised person under FSMA carrying out a regulated activity with respect to the Company, then a contravention by it of a Rule contained within the FCA Handbook may in certain circumstances give rise to a claim for breach of statutory duty against that service provider by an investor who suffers loss as a result of that contravention. Investors may also be afforded certain rights against service providers by the general law.

## **8. Protection from professional liability risks**

The Manager has effective internal operational risk management policies and procedures in order to appropriately identify measure, manage and monitor operational risks, including professional liability risks, to which it is or could reasonably be exposed. These policies and procedures are subject to regular review and the operational risk management activities are performed independently as part of the risk management policy.

The management of operational risk, through the risk and control self-assessment process, is aimed at identifying risks in existing processes and improving existing controls to reduce their likelihood of failure and the impact of losses. All risks and events are facilitated via the internal risk management system, which provides a platform to facilitate the convergence of governance, risk and compliance.

The Manager is required to cover professional liability risks, such as the risk of loss of documents evidencing title of assets to the Company, and complies with such requirement by maintaining an amount of its own funds in accordance with AIFMD.

## **9. Delegation arrangements and management of conflicts**

### **Delegation arrangements**

From time to time, the AIFM may delegate certain management functions to its affiliated subsidiaries or third parties. The AIFM has delegated:

- Portfolio management to the Investment Manager, abrdn Investment Management Limited.
- Company secretarial duties to abrdn Holdings Limited.
- Administration to abrdn Investments Limited, which in turn has sub-delegated this function to BNP Paribas Fund Services UK Limited.
- Certain promotional and distribution services to abrdn Investments Limited.

### **Portfolio management**

The Manager has delegated portfolio management to the Investment Manager, to undertake fund management activities. The Investment Manager is part of the abrdn Group of companies of which the Manager is also part.

Pursuant to the Investment Management Agreement the Investment Manager will be responsible for managing the purchase and sale of investments within the categories allowed. The Investment Manager has discretion to take day to day investment decisions and to deal in investments in relation to the investment management of the Company, without prior reference to the Manager. The Manager is entitled to give further instructions to the Investment Manager. Notwithstanding the delegation of portfolio management to the Investment Manager, the Manager will at all times remain responsible for the portfolio management function and the Investment Manager has undertaken to abide by, and be subject to, the Manager's overall supervision, direction and control.

## **Company secretarial duties**

The Manager has delegated the company secretarial duties to abrdrn Holdings Limited. Pursuant to the CoSec Agreement, the Company Secretary provides company secretarial services including convening meetings of Directors and general meetings of the Company, keeping the statutory books and records of the Company, maintaining the Company's register, preparing and delivering company announcements and other company secretarial duties properly or reasonably performed by the secretary of a company or as the Manager may reasonably require

## **Administration**

The Manager has delegated the administration of the Company to abrdrn Investments Limited, which in turn has sub-delegated this function to BNP Paribas Fund Services UK Limited. The Administrator will assist the Manager in calculating the Company's Net Asset Value, as well as to provide fund accounting services in respect of the Company.

## **Depositary delegation**

The Depositary has given notice that it will delegate certain safekeeping functions in accordance with the provisions of AIFMD and the Depositary Agreement. A delegate of the Depositary may in turn sub-delegate subject to the same requirements.

## **Conflicts of interests**

The Manager and the Investment Manager are committed to treating clients and Shareholders fairly and have implemented procedures and processes to ensure that this is the case. In particular, the Manager and the Investment Manager have approved and adopted the abrdrn Group's Conflicts of Interests Policy.

The objective of the Conflicts of Interests Policy is to ensure the fair treatment of clients and Shareholders in cases of conflicts of interests or potential conflicts of interests which may arise in the course of providing management, advisory or administrative services to the Company.

To achieve this objective, the Conflicts of Interests Policy seeks to ensure that the Company and its service providers and the Manager and its delegates have adequate organisational and structural measures in place:

- To identify circumstances which constitute or may give rise to a conflict of interests entailing a material risk of damage to the interests of the Company or its Shareholders
- To provide procedures, mechanisms and systems to manage or resolve any such conflicts of interests; where such conflict cannot otherwise be avoided, ensuring that the Company, the Manager and the Investment Manager always act in the best interests of Shareholders
- To maintain a proper record of any such conflict or potential conflict and to ensure proper reporting to affected Shareholders.

The following circumstances have been identified as constituting or potentially giving rise to conflicts of interests:

- The Depositary is responsible for the oversight of the Manager's discharge of its duties
- Directors of the Manager are senior executives of, and employed by, the abrdrn Group
- The Manager, the Investment Manager and the Company Secretary are affiliated entities of the abrdrn Group. The key terms of the Investment Management Agreement and the CoSec Agreement are similar to those which might be agreed between independent third parties
- The Investment Manager has discretion to enter into foreign exchange hedging transactions and borrowings on behalf of the Company. The Investment Manager may appoint an affiliate of any existing service provider or any other third party to act as a counterparty in the execution of foreign exchange transactions in connection with the currency hedging activities of the Company and/or to implement the currency hedging strategy
- The abrdrn Group and its affiliates may hold or trade in securities and instruments of the same type as the securities and instruments held or traded in by the Company; they may also utilise the same or similar strategies as those adopted by the Investment Manager on behalf of the Company. In addition, the Company may make investments in other funds managed or advised by the abrdrn Group or its affiliates

In order to ensure that actual and potential conflicts of interests are appropriately identified, managed and monitored, the abrdn Group has established a formal committee which operates under documented terms of reference and which meets regularly to maintain oversight of the Conflicts of Interests Policy and the management of live conflicts situations. abrdn plc maintains a documented matrix of known or inherent conflicts of interests, as well as a documented register of live actual or potential conflicts of interests arising in the carrying on of its business operations.

#### **10. Valuation procedures**

The Company's accounting policies, including its policy in relation to the valuation of investments, are set out in the Annual Report.

The Company has delegated a number of its duties to the Manager including the proper valuation of the Company's assets, the calculation of the Net Asset Value of the Company and the publication of such Net Asset Values. Accordingly, the Manager has approved and adopted the abrdn Group's Valuation Policy. The Manager considers that the Valuation Policy contains appropriate and consistent procedures to ensure that a proper and independent valuation of the assets of the Company can be performed.

The Administrator has been engaged by abrdn Investments Limited to assist the Manager in calculating the Net Asset Value of the Company. In practice, this means that the Administrator sources prices for the assets of the Company and calculates a proposed Net Asset Value. These calculations are presented to the Manager, which discusses any particular pricing issues with the Administrator and may ultimately decide whether any prices require adjustment before the Net Asset Value of the Company is adopted. This may be the case where the price of an asset is hard to value and the Administrator has used fair value pricing, or where the price of an asset has increased or fallen by a significant proportion since its previous valuation.

#### **11. Liquidity risk management and redemption rights**

The Manager has a Liquidity Policy in place. For closed ended funds such as the Company, given their very nature, this policy focuses, primarily, upon the potential issues with regard to the mis-pricing of illiquid securities. The abrdn Group's market risk department is responsible for providing asset level liquidity evaluation reports on a periodic (e.g. monthly) basis to the Manager, the Investment Manager and other entities within the abrdn Group. This market risk department uses various risk assessment methods and sophisticated portfolio modelling, via a tool called APT (Advanced Portfolio Technologies), to measure the risk profile of assets held by portfolios and the risk of there being portfolio illiquidity related to the assets. This measurement enables the provision of management information to the Manager and the Investment Manager to enable those risks to be monitored. The portfolio modelling and measurement looks at the following risks: (i) asset liquidity risk (where a number of methods are used to measure liquidity, depending upon the nature of the asset – e.g. traded volumes reported on an exchange as a percentage of the total outstanding of the specific asset or with reference to the depth of the market using the bid-ask spread as an indicator); and (ii) contingency arrangements or liquidity buffers.

There are no redemption rights attaching to shares in the Company.

#### **12. Fees, charges and expenses**

With effect from 1 July 2023, the Manager's fees are 0.75% per annum (previously 0.85%) on the first £175 million (previously £250 million) of net assets, 0.65% per annum (unchanged) on net assets between this amount and £550 million (unchanged), and 0.55% per annum (unchanged) on net assets above £550 million (unchanged). Fees are payable quarterly in arrears.

The Company also incurs annual fees, charges and expenses in connection with administration, directors' fees, promotional activities, auditors' fees, lawyers' fees and depositary charges. The Company's Ongoing Charges (which include the management fee) for the last reported financial year, amounted to 0.95%.

### **13. Fair treatment/preferential treatment of Investors**

The Manager is subject to the FCA's rules on treating customers fairly and has adopted a policy regarding treating customers fairly, the operation of which is overseen by a formal committee comprised of senior managers from the abrdn Group's various business units and from its risk division. The role of the Conduct Risk Committee, which meets regularly and operates under documented terms of reference, is to ensure, among other matters, that the Conduct Risk Policy is implemented and maintained and to consider any actual or potential Conduct Risk Policy issues arising in connection with the abrdn Group carrying on its business operations. General awareness training on the Conduct Risk Policy and what it means to the abrdn Group and its customers is delivered to all abrdn Group staff.

No investor in the Company obtains preferential treatment or the right to obtain preferential treatment.

### **14. Availability of the AIF's latest annual report**

The Company's latest annual report is available on the Company's website:

[abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk). The Annual Report was published on 24 August 2023.

### **15. Procedure and conditions for the Issue and sale of shares**

The issue of new shares by the Company, either by way of a fresh issue of shares or by way of the sale of shares from treasury, is subject to the requisite Shareholder authorities being in place and all FCA listing rule requirements having been met. Shares in the Company can also be bought in the open market through a stockbroker. They can also be purchased through the abrdn savings schemes and qualify fully for inclusion within tax-efficient ISA wrappers. Further information about how shares in the Company may be purchased is set out in the section headed "Investor Information" in the Annual Report.

### **16. Latest NAV of the AIF**

The Company's NAV is published daily by way of an announcement on a regulatory information service.

For internet users, additional data on the Company, including the latest published NAV, the closing price of ordinary shares for the previous day of trading on the London Stock Exchange, performance information and a monthly factsheet, is available on the Company's website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk).

### **17. AIF's historical performance**

The Company's historical performance data, including copies of the Company's previous annual report and accounts, are available on the Company's website: [abrdnuksmallercompaniesgrowthtrust.co.uk](http://abrdnuksmallercompaniesgrowthtrust.co.uk).

### **18. Prime brokerage**

The Company has not appointed a prime broker.

### **19. Periodic disclosures**

The Manager will, at least as often as the annual report and accounts are made available to Shareholders, make the following information available to Shareholders:

- Any changes to (i) the maximum level of Leverage that the Manager may employ on behalf of the Company and (ii) any right of reuse of collateral or any guarantee granted under any leveraging arrangement
- The total amount of Leverage employed by the Company
- The percentage of the Company's investments which are subject to special arrangements resulting from their illiquid nature
- The current risk profile of the Company outlining (i) measures to assess the sensitivity of the Company to the most relevant risks to which the Company is or could be exposed and (ii) if risk limits set by the Manager have been or are likely to be exceeded and where these risk limits have been exceeded, a description of the circumstances and, the remedial measures taken
- The risk management systems employed by the Manager outlining the main features of the risk management systems employed by the Manager to manage the risks to which the Company is or may be exposed. In the case of a change, information relating to the change and its anticipated impact on the Company and Shareholders will be made available.

The Manager will inform Shareholders as soon as practicable after making any material changes to its liquidity management system and procedures. Any material changes to the periodic disclosures will be provided to Shareholders by way of an announcement to a regulatory news service.

## 20. Defined terms

The following defined terms are used in this pre-investment disclosure document:

Administrator	BNP Paribas Fund Services UK Limited
abrdrn Group	abrdrn plc and its subsidiaries
AIFMD	European Union Directive 2011/61/EU, together with its implementing measures
AIFM, Manager or aFML	abrdrn Fund Managers Limited
Annual Report	The Company's Annual Report and Accounts for the relevant financial year, the most recent year being the year ended 30 June 2023
Articles	The Company's articles of association, as amended from time to time
Auditor	KPMG LLP
Brussels Regulation	Council Regulation (EC 44/2001) of 22 December 2000, concerning the recognition and enforcement in England and Wales of judgments given by the courts of most EU member states in civil and commercial matters
Commitment Method	The commitment method for calculating leverage as prescribed under Article 8 of the AIFMD, which excludes certain hedging instruments from the calculation
Company or AIF	abrdrn UK Smaller Companies Growth Trust plc
Company Secretary	abrdrn Holdings Limited
Conduct Risk Committee	abrdrn plc's formal committee for overseeing, among other matters, the Conduct Risk Policy
Conduct Risk Policy	abrdrn plc's documented policy regarding treating customers fairly
CoSec Agreement	The company secretarial agreement between the Manager and Company Secretary dated 4 & 7 July 2014 and as amended
Conflicts of Interests Policy	abrdrn plc's documented conflicts of interests policy
Depository	BNP Paribas Trust Corporation UK Limited
Depository Agreement	Depository agreement among the Company, the Manager and the Depository dated 14 July 2014
ESG	Environmental social and governance
EU SFDR	The European Union Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector
EU Taxonomy	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment
FCA	The Financial Conduct Authority
FCA Handbook	The FCA's Handbook on rules and guidance
FSMA	Financial Services and Markets Act 2000, as amended
Gross Method	The gross notional method for calculating leverage as prescribed under Article 7 of the AIFMD, which includes certain hedging instruments within the calculation
Investment Manager	abrdrn Investment Management Limited
Investment Management Agreement	The investment management agreement between the Manager and the Investment Manager dated 4 & 7 July 2014 and as amended
Leverage	Any method by which the AIFM increases the exposure of the Company whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means
Liquidity Policy	abrdrn plc's documented policy regarding liquidity risk management
Management Agreement	The management agreement between the Company and the Manager dated 4 & 7 July 2014 and as amended
Net Asset Value or NAV	The net asset value of the Company

Ongoing Charges	Ratio of expenses as a percentage of average daily shareholders' funds calculated as per the Association of Investment Companies' industry-standard method
Registrar	Computershare Investor Services PLC
Shareholders	Shareholders in the Company
Stockbroker	Winterflood Securities Limited
Valuation Policy	abrdn plc's documented valuation policy regarding the production and oversight of net assets values of collective funds in the Europe, Middle East and Africa region

**Other important information**

Issued by abrdn Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered Office: 280 Bishopsgate, London EC2M 4AG. Registered in England & Wales No. 00740118. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.

# Appendix to Pre-investment Disclosure Document

## abrdr Fund Managers Limited: Risk management

### Risk management function

abrdr plc and its subsidiaries ("the Group") is committed to building and continuously improving a sound and effective system of internal control and a risk management framework that is embedded within its operations; this is the Group's first line of defence.

The Group's Risk Division, as the second line of defence, exists to support management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Conduct & Compliance, Operational Risk and investment risk Oversight. The team is headed by the Group's Chief Risk Officer, who reports to the Chief Executive Officer of the Group. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system (SHIELD).

The Group's Internal Audit Department is independent of the Risk Division and reports directly to the Group CEO and to the chair of the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment; it is the Group's third line of defence.

The Group's corporate governance structure is supported by several committees that bring together Group's subject matter experts from different departments, to assist the Boards of Directors of abrdr plc, its subsidiaries and the funds to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those that deal with investment recommendations to the Boards. The specific goals and guidelines on the functioning of these committees are described in their respective terms of reference.

### Description of the process of identifying, assessing and managing risks

- **Market risk:** Is monitored through factor modelling used to calculate both absolute and relative ex ante quantities such as tracking error (TE) and Value at Risk (VaR). The VaR is computed on a NAV basis as the maximum loss that the portfolio should incur over 20 days, 99% of the time under normal market conditions. The fund's portfolio risks are decomposed into intuitive components to pinpoint areas of unexpected market risk. The techniques are applied to all relevant asset classes. The market risk is further monitored through the computation of the level of leverage by both the gross and net approach. The leverage is calculated by converting each FDI into the equivalent position in the underlying assets of those derivatives, on a NAV basis. The market risk linked to the concentration risk is mitigated through investment restrictions set according to the basic principle of diversification.
- **Liquidity risk:** The Group has a Liquidity Risk Management Policy in place applicable to the funds and set out in accordance with its overall Risk Management Process, relative to the size, scope and complexity of the funds. Liquidity Risk is monitored on both the asset and liability sides. To measure and monitor asset liquidity risk the Group employs a number of methods specific to the underlying assets. In all cases, the approach is to reference the actual holdings of the sub-fund against a true measure of the market at both an aggregate and a position level. The Group has implemented a Group Pricing Policy which details the operational responsibilities for pricing assets, this policy is owned and overseen by the Group pricing Committee. On the liability side, investor transactions and, beyond this, investor behaviour are the main driver of liquidity within each sub-fund. In this context, the articles and prospectuses contain certain key provisions or limits which provide protection to the funds and ultimately investors, in situations where liquidity might become a concern. In addition, the fund receives and analyses periodic reports in respect of the shareholder concentration within each sub-fund. Any shareholder concentrations and transactional behaviour are identified at sub-fund level and any particular concerns noted are escalated to the relevant Group Committee and respective Boards, if material.
- **Credit and counterparty risk:** The credit and counterparty risks linked to derivatives transactions are managed through processes outlined in the Group's Counterparty Credit Risk Policy. This Policy underpins on the following principles: Internal Credit assessments; credit limits; exposure calculation and oversight and Control. Credit research on counterparties is carried out by the Credit Investment Team. Research is conducted on the basis of qualitative and quantitative analysis and is presented for discussion at the Credit Committee on a monthly basis. Each counterparty is reviewed at least once per annum. Furthermore the Risk and Exposure Committee (REC) and/or credit Committee can impose house level restrictions on concentrations. Credit risk exposures are calculated net of collateral received. The methodology for calculating an amount for potential exposure arising from movements in mark to market is approved by the REC. Acceptable collateral and other



commercial and credit terms for inclusion in the International Swap and Derivative Association (ISDA) documentation is defined in the Group Derivative Management Policy. Counterparty credit exposures are monitored against internal limits by an investment control team and monitored by the Group Credit Committee and Risk and Exposure Committee.

- **Legal risk:** All key contractual arrangements entered into by the funds are reviewed by the Legal Department and, where required, by external legal counsel. If these contracts refer to delegation arrangements, where applicable, there is an operating memorandum defining information flows between the parties, frequency of services and deadlines, a clear attribution of rights and responsibilities of each party and, when applicable, the key performance indicators to measure performance. Any litigation issues are also handled by the Legal Department.

Each OTC derivatives are framed within the legal provisions of the ISDA Master agreement which defines the rights and obligations of parties engaging in derivatives trading. The ISDA master agreements are negotiated and signed between each umbrella/sub-fund and the counterparty. The Credit Support Annex (CSA) is a legally binding document which is annexed to the ISDA agreement and details the Minimum Transfer Amount (MTA) or collateral required by AAML when engaging in OTC derivatives trading with counterparties. The Group Derivative Management Committee is responsible for approving the commercial terms associated to derivative documentation for the Group.

- **Tax risk:** The Group uses external tax consultants to advise on tax structuring, transactions and tax reporting.
- **Operational risk:** The Operational Risk Management Framework ensures that the operational risks taken and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented. The identification, measurement, management and monitoring of operational risk within the Group are achieved through the use of the Group's Operational Risk Management Framework System, SHIELD. This system provides the following key Risk Management Modules:
  - *Event Management:* This module serves as a historical loss database, in which any operational failures, loss and damage experience (Events) will be recorded. The records include professional liability damages. The process for recording, investigation and mitigation of Events aims to ensure that they are not repeated.
  - *Issues and Actions Plan:* The issues and actions module provides a standardised mechanism for identifying, prioritising, classifying, escalating and reporting internal audit findings and other on-going / unresolved matters impacting the Group from a risk or regulatory perspective (Issues).
  - *Risk and Control Self Assessment (RCSA):* The RCSA process is to ensure key risks and key controls are identified and managed effectively in order to satisfy, at a Group level, Internal Capital Adequacy (ICAAP) requirements. The RCSA also provides a systematic and holistic means of identifying risk and control gaps that could impact business or process objectives which are agreed by senior management to complete.
  - *Business Continuity Plan (BCP):* Is in place and designed for invocation where there has been significant disruption to normal business functions at any abrdn Group office that is likely to last longer than 24 hours.

## Measuring risk

Where appropriate the Group applies the following measurements for each fund:

- **Leverage:** Has the effect of gearing a fund's expected performance by allowing a fund to gain greater exposure to underlying investment opportunities (gains and losses). The higher the leverage the greater the risk (potential loss).
- **Volatility, Value-at-Risk (VaR) and Conditional VaR (CVaR):** Volatility measures the size of variation in returns that a fund is likely to expect. The higher the volatility the higher the risk. VaR measures with a degree of confidence the maximum the fund could expect to lose in any one given day, assuming a normal (Gaussian) distribution, this is a function of the volatility of the fund. The higher the volatility, the higher the VaR, the greater the risk. CVaR calculates the expected loss, under the assumption that the VaR has been reached.
- **Tracking error (TE):** Measures the expected magnitude of divergence of returns between the fund and benchmark over a given time.
- **Systematic and stock specific risk:** Systematic risk represents the proportion of a fund's risk that is attributable to market exposure; and specific risk represents the risk that is intrinsic to individual stocks (i.e. particular to a given stock's attributes).

- **Stress test and scenario analysis:** Captures how much the current portfolio will make or lose if certain market conditions occur.
- **Concentration risk:** By grouping the portfolio through various different exposures: country, sector, issuer, asset etc., to identify where concentration risk exists.

### **Escalation and reporting**

The Group recognises timely and adequate reporting measures as well as escalation channels to be key components of the control process and management of risk.

The Risk team provide regular updates to the Board/senior management on the adequacy and effectiveness of the Risk Management Process indicating, where applicable, actual or anticipated deficiencies and the remedial measures.

In addition, all issues and events impacting any Group entity or the funds are logged in SHIELD, by the relevant area within the prescribed time limits.