EDISON

abrdn UK Smaller Companies Growth Trust

Solid relative performance recovery continues

Investment trusts
UK smaller companies

25 September 2024

Price	**499.0p**
Market cap	**£365m**
Total assets	**£440m**

NAV*		564.1p
Discount to NAV		11.5%

*Including income. At 20 September 2024.

Yield		2.4%
Ordinary shares in issue		73.2m
Code/ISIN		AUSC/GB0002959582
Primary exchange		LSE
AIC sector		UK Smaller Companies
Financial year end		30 June
Share 52-week high/low	534.0p	370.0p
NAV* 52-week high/low	598.8p	438.1p

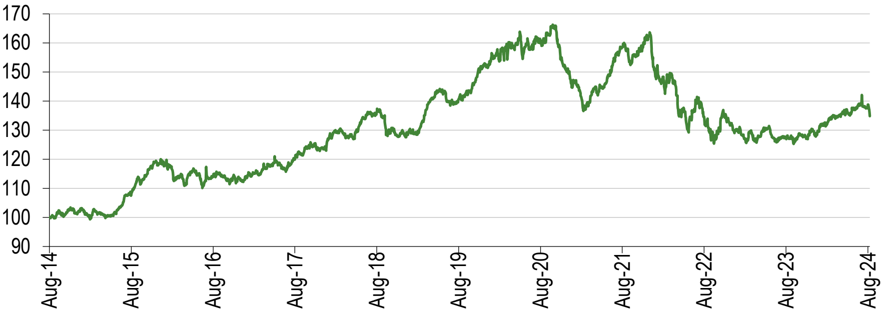
*Including income.

Net gearing*	6.5%

*At 20 September 2024.

abrdn UK Smaller Companies Growth Trust's (AUSC's) relative performance continues to improve as managers Abby Glennie and Amanda Yeaman build on the solid outperformance of the trust versus the reference index in FY24. Their bottom-up stock selection process, which includes the use of a screen known as the Matrix, remains unchanged; the market has been more bottom-up rather than top-down focused and is rewarding good company updates. Portfolio companies are trading well, and their businesses have strong underlying momentum. Market share gains have been evident across the portfolio as management teams successfully execute their strategies.

NAV performance versus the reference index continues to improve



Source: LSEG Data & Analytics, Edison Investment Research

Why consider AUSC?

While the managers say that 'time in the market' is more important than 'timing the market', now could be an interesting time to consider AUSC given its performance improvement and the outlook for further interest rate cuts, which typically lead to small- and mid-cap share price outperformance versus large caps. The trust's portfolio is trading at a four-point forward P/E premium to the reference index, which is at the low end of the three- to 13-point historical range.

The Matrix is a proprietary multifactor model that screens the investment universe for companies with quality, growth and momentum attributes. It focuses the research effort by highlighting both potential new holdings and aiding portfolio construction. The Matrix has proved successful for more than 25 years, through multiple business cycles.

Guided by the Matrix, Glennie and Yeaman have been sharper at building up new positions and faster to cut poorly performing stocks. They say this has proved effective, such as when the Matrix highlighted the improving metrics at Premier Foods, which after further research was subsequently added to the portfolio.

There is scope for AUSC to be afforded a higher valuation, when investor appetite for UK small-cap stocks further improves, especially given the trust's improving short-term and robust long-term performance record. The company also has a progressive dividend yield and an active share buyback policy.

Fund objective

abrdn UK Smaller Companies Growth Trust aims to achieve long-term capital growth through investment in a diversified portfolio consisting of UK-quoted smaller companies. Performance is measured against the Deutsche Numis Smaller Companies plus AIM ex-Investment Companies Index (the reference index).

Bull points

- Long-term record of strong absolute and relative performance.
- Consistent proprietary investment process driven by the Matrix.
- Over the long term, shares of smaller companies tend to perform relatively better than those of larger businesses.

Bear points

- Relative performance tends to struggle when investor focus is on macroeconomic events rather than on company fundamentals.
- Less appetite for small-cap stocks during periods of elevated investor risk aversion.
- In general, the operations of UK small-cap companies are more leveraged to the domestic economy.

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AUSC: Now could be a particularly good entry point

Having experienced a difficult 2022, as rising interest rates put pressure on the valuations of growth stocks, AUSC's relative performance is solidly back on track. The trust's investment process involves bottom-up stock picking focused on quality, growth and momentum factors, and has proved successful through five economic cycles. In broad terms, AUSC tends to perform better when company fundamentals are driving markets, when markets are challenged and in periods of low growth. The trust tends to do less well in top-down driven markets or when the value style of investing is in favour.

Perspectives from AUSC's managers

Glennie and Yeaman comment that the investment environment has been kinder, with eight months of lower market volatility, and the UK has performed relatively better due to its low valuation and positive GDP revisions. As UK inflation has moderated there has been increased discussion about lower interest rates.

The managers emphasise that AUSC's outperformance in FY24 was primarily due to successful stock picking. They highlight the trust's well-defined process but note that its quality growth style of investing had been out of favour. Sentiment towards UK equities in general looks to be improving after a period of apathy, including more interest in UK small-cap growth stocks. The UK is dealing with its inflation issue, is seen as politically stable and GDP growth has exceeded consensus expectations (albeit off a modest base). Shares in UK small companies have been hit hard, so Glennie and Yeaman think there is potential for a strong bounce back. They note that quality growth stocks are yet to shine but their investment style is no longer facing headwinds.

The managers say that the UK market remains attractively valued and note that the UK savings rate is above the historical average, so if it is unlocked, it should be positive for household consumption. They suggest that the outlook for UK consumers is better compared with history, and also better than the outlook for consumers in other regions. Glennie and Yeaman highlight that the UK market tends to perform well when interest rates come down, with small- and mid-cap stocks outperforming over the subsequent six and 12 months.

Lower interest rates tend to improve sentiment towards and the operational performance of small-cap companies. They encourage businesses to expand, and give consumers more spending power, which is important for smaller companies that are often more dependent on the domestic economy rather than international economies. The managers note that over the last two years, investee companies that have continued to operate well, growing earnings and paying dividends, have not been rewarded by the market, leading to very attractive valuations.

Current portfolio positioning

In the 12 months to the end of August 2024, the number of stocks in AUSC's portfolio was reduced by seven to 49, which is just below the low end of the typical 50–60 range. The trust's top 10 concentration over the period increased from 31.6% to 35.5%. At the end of August 2024, the fund's active share was 81.2%, which was lower than 83.6% at the end of August 2023 (0% is full index replication and 100% is no commonality).

Exhibit 1: Top 10 holdings (at 31 August 2024)			
		Portfolio weight %	
Company	Sector	31 August 2024	31 August 2023*
JTC	Investment banking & brokerage services	4.0	3.1
Diploma	Industrial support services	4.0	3.5
Hill & Smith Holdings	Industrial metals & mining	3.9	3.8
Cranswick	Food producers	3.6	2.9
Hilton Food Group	Food producers	3.5	2.7
XPS Pensions	Investment banking & brokerage services	3.5	N/A
Morgan Sindall Group	Construction & materials	3.4	2.9
Paragon Banking Group	Investment banking & brokerage services	3.3	N/A
Ashtead Technology Holdings	Subsea equipment	3.2	N/A
Volution	Construction & materials	3.1	N/A
Top 10 (% of portfolio)		**35.5**	**31.6**

Source: AUSC, Edison Investment Research. Note *N/A where not in end-August 2023 top 10 but may be held elsewhere in the portfolio.

Exhibit 2 shows AUSC's portfolio breakdown by sector. Trading activity and market moves have resulted in some notable changes in sector weightings over the 12 months to the end of August 2024. There was an 8.9pp reduction in exposure to the technology sector and an 8.2pp increase in the weighting to financial stocks. The trust retains a zero weighting in utility stocks as these companies do not have the required quality, growth and momentum attributes.

Exhibit 2: Portfolio sector exposure (ex-cash and gearing, % unless stated)			
	Portfolio end-August 2024	Portfolio end-August 2023	Change (pp)
Industrials	24.4	24.3	0.1
Financials	22.2	14.0	8.2
Consumer discretionary	19.0	21.3	(2.3)
Consumer staples	9.5	5.9	3.6
Energy	6.1	2.9	3.2
Basic materials	5.0	5.7	(0.8)
Technology	4.5	13.4	(8.9)
Telecommunications	4.2	5.1	(0.8)
Real estate	3.5	4.8	(1.3)
Healthcare	1.6	2.7	(1.1)
	100.0	**100.0**	

Source: AUSC, Edison Investment Research

Portfolio activity

During FY24, there were 13 new additions to AUSC's portfolio, including Raspberry Pi, which the trust acquired at its recent IPO and 18 complete disposals. Portfolio turnover of 28% was moderately higher versus a more normal 20% as the stage of the business cycle has brought opportunities and the portfolio has experienced increased bid activity; the managers have been investing in several new ideas that have been highlighted by the Matrix.

The new holdings, most of which we have covered in our previous research reports, were: Ashtead Technology (subsea equipment rental); Boku (mobile payment solutions); Cairn Homes (Irish housebuilder); Chemring (defence and cyber); Clarkson (shipbroking); Hunting (oil services); Jet2 (package holidays; the company has been in the portfolio before); Johnson Service (textile rental); Premier Foods (branded food products); Renew Holdings (engineering services); Volex (power products); and XPS Pensions (pensions advisory, administrative and actuarial business).

Raspberry Pi is the first UK IPO in a while and since listing, its shares have performed well. The company makes single-board computers and has sold 60m units in just over a decade. Raspberry Pi is a founder-run business with significant intellectual property, which helps create barriers to entry and generate attractive margins, while keeping prices low. AUSC's managers believe that this is a unique listed UK asset.

Four of the disposals were as a result of corporate actions: Ergomed (clinical research); Mattioli Woods (financial services); Smart Metering Systems (metering services and grid battery storage);

and Spirent (testing and network solutions). Most of the other sales, listed here, were in cyclical businesses, with limited visibility around a business recovery: FDM (specialist recruitment); Focusrite (hardware for content production); Future (specialist media platform); GB Group (identity verification and fraud detection); Henry Boot (land and property development); Impax (sustainable investment); Kainos (digitisation programmes); Marshalls (landscaping products); Motorpoint (second-hand car sales); Safestore (self-storage); Serica (oil and gas production); Team 17 (video games); XP Power (components for power products); and Watches of Switzerland (premium watches and jewellery).

Performance: Positive momentum is growing

There are 24 funds in the AIC UK Smaller Companies sector. In Exhibit 3 we show the 12 largest companies with market caps above £100m. Within this selected peer group, AUSC's NAV total returns are above average over the last 12 months, while lagging over the other periods shown. It should be remembered that the peers have different investment approaches.

Morningstar data show that within the selected peer group there are only three funds classified as small-cap growth funds: AUSC, Montanaro UK Smaller Companies Investment Trust (MTU) and Odyssean Investment Trust (ODI), which has a much more concentrated portfolio. Comparing their performance, AUSC has the highest NAV total returns of the three funds over the last year and of the two funds over the last decade. The three portfolios have a similar exposure to defensive sectors (anticyclical – 12–13%) but AUSC has the highest exposure to cyclical sectors (high sensitivity to the business cycle – 39% versus 31% and 24%) and the lowest exposure to sensitive sectors (moderate correlation to the business cycle – 49% versus 56% and 63%).

Within the selected peer group, AUSC's discount is wider than average in a group where just one fund is trading at a premium. The trust has a below-average ongoing charge, an average level of gearing and a dividend yield that is 40bp above the mean.

Exhibit 3: Selected peer group at 23 September 2024*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
abrdn UK Smaller Companies Growth	365.1	19.8	(28.2)	14.5	118.0	(11.4)	0.9	No	106	2.4
Aberforth Smaller Companies	1,309.2	24.7	6.2	41.4	88.0	(10.0)	0.8	No	106	2.7
BlackRock Smaller Companies	689.5	14.2	(25.4)	16.9	111.6	(9.6)	0.7	No	111	3.0
BlackRock Throgmorton Trust	549.1	15.2	(27.8)	25.4	150.5	(11.2)	0.5	Yes	115	2.4
Henderson Smaller Companies	645.7	21.8	(24.3)	17.4	100.1	(11.5)	0.4	Yes	116	3.1
Invesco Perpetual UK Smaller	147.7	12.2	(23.3)	8.8	102.8	(12.2)	1.0	No	104	0.0
JPMorgan UK Small Cap Grow & Inc	456.3	25.0	(15.3)	53.7	146.2	(4.9)	1.0	No	111	3.0
Montanaro UK Smaller Companies	176.6	13.3	(23.6)	12.6	57.3	(12.5)	0.9	No	103	4.4
Odyssean Investment Trust	225.6	12.0	6.2	68.9		0.7	1.5	Yes	100	0.0
Oryx International Growth	196.0	16.1	(6.1)	82.1	250.2	(23.5)	1.5	No	100	0.0
Rights & Issues Investment Trust	124.1	23.7	(6.0)	36.7	137.7	(8.7)	0.9	No	100	1.8
Strategic Equity Capital	165.7	14.3	8.9	46.5	118.9	(6.4)	1.2	Yes	100	0.7
Simple average	**420.9**	**17.7**	**(13.2)**	**35.4**	**125.6**	**(10.1)**	**1.0**		**106**	**2.0**
Rank (out of 12 funds)	**6**	**5**	**12**	**10**	**6**	**8**	**7**		**6**	**7**

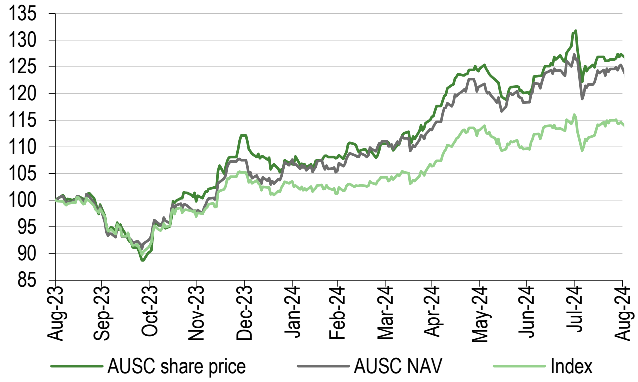
Source: Morningstar, Edison Investment Research. Note: *Performance at 23 September 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

In FY24 (ending 30 June) AUSC's NAV and share price total returns of +18.1% and +21.0%, respectively, meaningfully outperformed the reference index's +10.0% total return. Encouragingly, the trust outperformed in nine out of 12 months. Four acquisitions of portfolio companies (Ergomed, Mattioli Woods, Smart Metering Systems and Spirent) added around 2% to relative performance; the majority of AUSC's outperformance was due to successful stock selection.

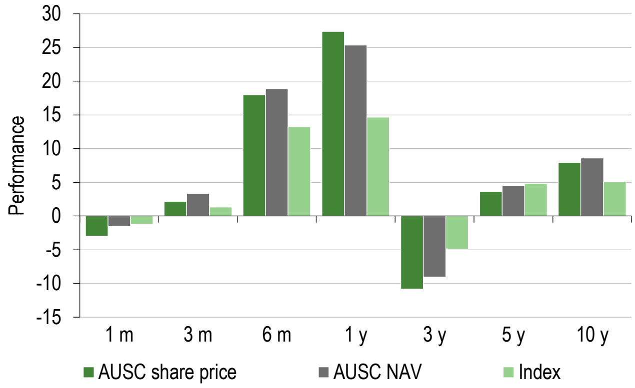
The three largest contributors to the trust's relative performance in FY24 were: Ashtead (+153bp – a new position during the financial year, the company's strong operational performance has led to a series of earnings upgrades); Ergomed (+102bp – received a takeover bid from European private equity firm Permira); and Diploma (+98bp – this company has continued to build on its successful long-term growth record). On the other side of the ledger, the three largest performance detractors in FY24 were: CVS Group (-130bp – the veterinary industry was subject to a review by the Competition Markets Authority focusing on price, consumer visibility and branding; the managers expect any outcome to be manageable); Big Technologies (-115bp – the company has suffered from a contract loss and a lack of large contract wins); and XP Power (-75bp – a series of disappointments and a lack of confidence in the management team meant this position was sold ahead of an equity raise).

Exhibit 4: Investment trust performance to 31 August 2024

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Index is Deutsche Numis Smaller Cos plus AIM ex-Investment Companies (Deutsche Numis Smaller Cos ex-Investment Companies to 31 December 2017).

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to index*	(1.8)	0.9	4.2	11.1	(17.4)	(5.5)	30.9
NAV relative to index*	(0.3)	2.0	5.0	9.4	(12.5)	(1.3)	38.8
Price rel to Deutsche Numis Smaller Cos plus AIM ex-ICs	(1.8)	0.9	4.2	11.1	(17.4)	(5.5)	32.9
NAV rel to Deutsche Numis Smaller Cos plus AIM ex-ICs	(0.3)	2.0	5.0	9.4	(12.5)	(1.3)	40.9
Price relative to CBOE UK Smaller Companies	(1.3)	2.5	(0.6)	(2.0)	(40.7)	(33.2)	(3.6)
NAV relative to CBOE UK Smaller Companies	0.2	3.6	0.2	(3.5)	(37.1)	(30.2)	2.3
Price relative to CBOE UK All Companies	(3.8)	(0.4)	5.0	8.6	(43.7)	(13.7)	18.3
NAV relative to CBOE UK All Companies	(2.4)	0.8	5.8	6.9	(40.3)	(9.9)	25.4

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end-August 2024. Geometric calculation. *Index is Deutsche Numis Smaller Cos plus AIM ex-Investment Companies (Deutsche Numis Smaller Cos ex-Investment Companies to 31 December 2017).

Exhibit 6: NAV total return performance relative to reference index over three years

Source: LSEG Data & Analytics, Edison Investment Research

This year has seen a solid improvement in AUSC's relative performance. The trust is bouncing back from a period when rising interest rates negatively affected the valuation of growth stocks and investors focused on macroeconomic developments rather than on company fundamentals. AUSC is now ahead of the reference index over one year and its NAV is modestly behind over the last five years (Exhibit 5). The trust retains its commendable outperformance over the last decade.

Exhibit 7: Five-year discrete performance data

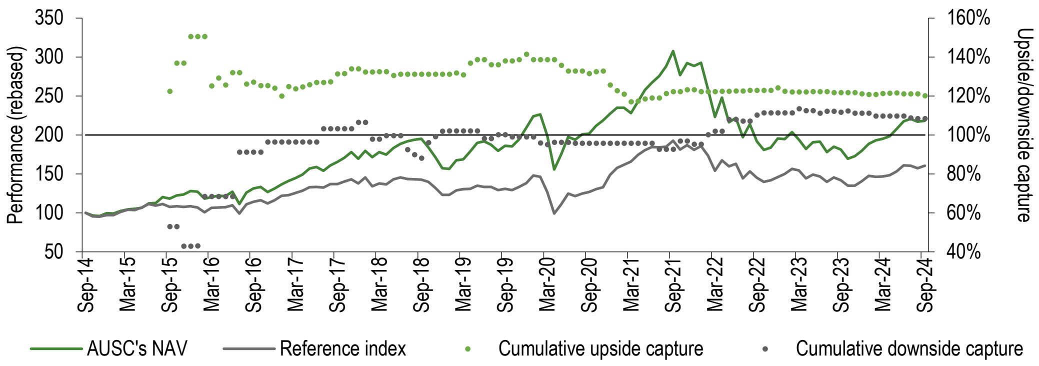
12 months ending	Share price (%)	NAV (%)	Index* (%)	CBOE UK Smaller Companies (%)	CBOE UK All Companies (%)
31/08/20	14.3	13.4	(0.2)	(10.2)	(13.5)
31/08/21	47.3	46.3	47.6	66.6	27.1
31/08/22	(36.9)	(34.8)	(22.6)	(7.9)	1.8
31/08/23	(11.8)	(8.1)	(3.2)	(0.1)	5.5
31/08/24	27.4	25.4	14.6	29.9	17.3

Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling. *Index is Deutsche Numis Smaller Cos plus AIM ex-Investment Companies.

Upside/downside capture

AUSC's upside/downside capture over the last decade is shown in Exhibit 8. Its upside capture rate of 120% suggests that the trust is likely to outperform by around 20% in months when UK small-cap shares are moving up. The 109% downside capture rate implies that AUSC is likely to underperform by around 9% during periods of UK small-cap share price weakness.

Exhibit 8: AUSC's upside/downside capture



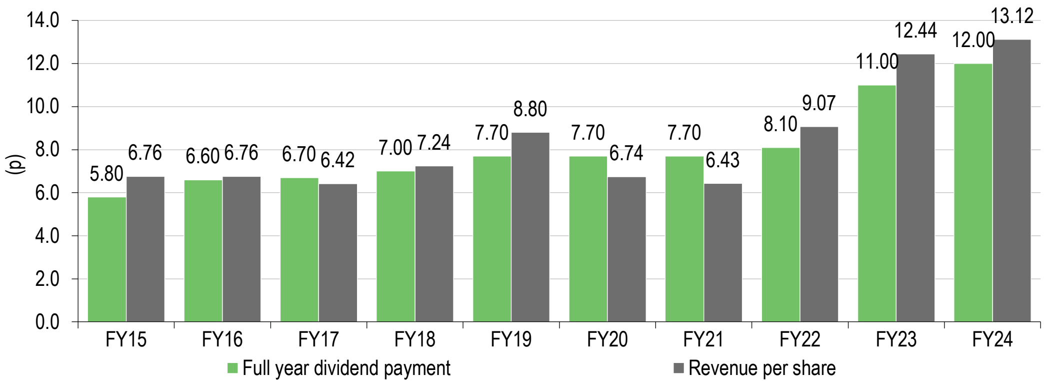
Source: LSEG Data & Analytics, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Dividends: Further dividend progression in FY24

In FY24, the trust's revenue earnings were 13.12p per share, which was a 5.5% increase versus 12.44p per share in FY23. This growth is back to a more sustainable level, following two years of elevated growth after the global COVID-19 pandemic. Only around 2.5% of FY24 revenue came from special dividends (Bytes Technology and Hollywood Bowl), which compares to around 20% of revenue 10 years ago.

AUSC pays semi-annual dividends in April and October. The board aims to pay out around a third of the total annual distribution as the interim dividend, with around two-thirds as the final dividend. The board is proposing an FY24 full-year dividend of 12.0p per share, which is 9.1% higher year-on-year and will allow 2.2p per share to be added to revenue reserves. There are four companies in the portfolio that the managers do not expect to pay a dividend soon, as they are reinvesting for future growth: Auction Technology Group, Big Technologies, Boku and Marlowe.

Exhibit 9: Dividend history over the last 10 financial years

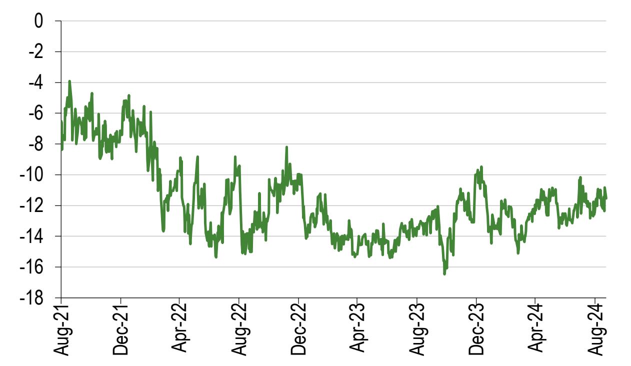


Source: AUSC, Edison Investment Research

Valuation: Performance merits a narrower discount

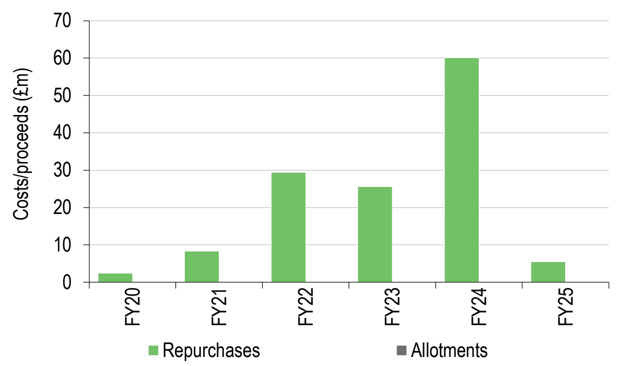
AUSC's board is frustrated that the trust's improved performance has not led to a higher valuation. Unfortunately, AUSC has not been immune to the trend of wider investment trust discounts during a period of elevated investor risk aversion, with small-cap shares particularly out of favour. However, the trust's 11.5% discount is narrower than the 12.6% and 11.7% averages over the last one and three years, respectively. It is also towards the top end of the broad 10.0% to 15.0% range of discounts since the start of 2022 (Exhibit 10) and looks to be on an improving trend.

Exhibit 10: Discount over three years (%)



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 11: Buybacks and issuance



Source: Morningstar, Edison Investment Research

The board employs a discount control mechanism, targeting a maximum 8.0% share price discount to cum-income NAV in normal market conditions. Renewed annually, it has the authority to repurchase up to 14.99% of AUSC's share capital. During FY24, c 14.1m shares (c 15.9% of the share base) were bought back at a cost of c £60.5m. The weighted average discount at which the shares were repurchased was 13.1% and the board calculates that this added 10.7p per share to the trust's NAV.

AUSC's board's 14.99% share repurchase authority was granted at the November 2023 AGM. Given the pace of share buybacks in FY24, a further 14.99% share repurchase authority was granted at a general meeting on 3 June 2024, ahead of the next AGM, which is expected in November 2024.

The trust also has a discretionary tender mechanism in place, although no tenders have taken place since June 2015, as share buybacks are the primary method to manage AUSC's discount.

Fund profile: High-conviction UK small-cap equities

Launched in August 1993, AUSC is quoted on the Main Market of the London Stock Exchange. Since 1 January 2023, the trust has been managed by Abby Glennie, who replaced long-standing lead manager Harry Nimmo; they had worked closely together since January 2016, and Glennie had been AUSC's co-manager since 17 November 2020. Amanda Yeaman is the trust's deputy manager; she joined abrdn in 2019. Glennie and Yeaman aim to generate long-term capital growth from a diversified portfolio of UK-quoted smaller companies.

AUSC's portfolio is made up of 50–60 of the managers' highest-conviction investment ideas. The trust's performance is measured against the Deutsche Numis Smaller Companies plus AIM ex-Investment Companies Index (the Deutsche Numis Smaller Companies ex-Investment Companies Index before 1 January 2018). To mitigate risk, at the time of purchase, AUSC may hold no more than 5% of total assets in a single position, no more than 5% in companies with a market cap below £50m and the managers tend not to invest in 'blue sky' (not yet profitable) companies, although up to 5% is permitted. Up to 50% of the portfolio may be invested in companies that are constituents of the broad AIM index. The managers may vary the trust's level of gearing between a net cash position of 5% and net gearing of 25% of NAV (at the time of drawdown). Over the last decade, the financial year-end position has ranged from 0.3% net cash to 5.8% net gearing.

AUSC started life as Edinburgh Smaller Companies in 1993, with Standard Life Investments (now abrdn) assuming management in 2003. The trust merged with Gartmore Smaller Companies Trust in 2009 and with Dunedin Smaller Companies Investment Trust in October 2018. With effect from 25 October 2021, the trust's name was changed, following shareholder approval, from Standard Life UK Smaller Companies Trust (ticker: SLS) to abrdn UK Smaller Companies Growth Trust. The board deemed that the addition of 'growth' better reflects what the trust is seeking to achieve.

Investment process: Using the proprietary Matrix

The managers follow seven principles for successful small-cap investing:

- **Focus on quality to enhance return and reduce risk** – factors include strong financials, the strength of a company's relationship with its customers and an element of pricing power.
- **Look for sustainable growth** – companies that can deliver consistent year-on-year earnings growth.
- **Momentum** – run your winners and cut losers.
- **Concentrate your efforts** – use of the Matrix helps identify suitable portfolio companies and reduces the risk of spending on stocks that do not meet the required criteria.
- **Invest for the long term** – identify the great companies of tomorrow and hold them for the long term, which helps to maximise returns and reduce trading costs.
- **Management quality** – high ownership and involvement by founders and CEOs with long tenures are viewed positively.
- **Valuation aware** – company valuations are embedded within the Matrix and the decision-making process but are not a primary focus.

In their search for long-term capital growth, Glennie and Yeaman use the Matrix. This screening tool is based on a series of 12 quality, growth, momentum and valuation factors, including forecast earnings and dividend growth, earnings revisions, share price momentum, balance sheet strength and the level of directors' dealing, to whittle down the investible universe of around 500 stocks to around 100 that are deemed worthy of further consideration. The most important factor, at c 40% of the Matrix weighting, is earnings revision momentum because back-testing shows this is the most predictive measure of future share price performance. Stocks are assigned a Matrix score between +40 and -40, with those between +10 and +40 deemed potential buy candidates and those between -10 and -40 potential sells. Companies considered for inclusion in AUSC's portfolio are subject to further in-depth analysis and meeting company managements is an integral part of the research process. In keeping with other abrdn investment teams, the managers have a strong focus on a company's ESG credentials.

Positions may be trimmed or sold if there is a deterioration in the Matrix score, the original investment thesis no longer holds true, they have grown to more than 5% of the portfolio or there is a higher-conviction name identified. The disciplined investment process has been employed since abrdn took over management of the fund in 2003 and has delivered creditable performance through economic and market cycles.

AUSC's approach to ESG

abrdn has more than 800 investment professionals, including c 50 ESG specialists around the world. It encourages companies in which it invests to adhere to best practice in the areas of ESG stewardship. abrdn believes this can be achieved by entering into a dialogue with company managements to encourage them, where necessary, to improve their corporate standards, transparency and accountability. By making ESG central to its investment capabilities, abrdn seeks to deliver robust outcomes as well as actively contributing to a fairer, more sustainable world. It considers ESG factors are financially material and affect corporate performance; companies that have higher standards tend to outperform those that do not.

The managers explain that for AUSC, ESG is really embedded at the core of the research process and is an important aspect of the focus on quality and the lower-risk approach. There is an ESG specialist on abrdn's small-cap desk, and the managers also work closely with abrdn's large and knowledgeable central ESG investment team. Glennie and Yeaman regularly engage with company management teams, including on ESG aspects. They say that it is important to highlight a couple of nuances for smaller companies. While external ESG data are used, it is not an ideal process because many of the companies are not covered at all, or are covered badly, providing a real opportunity for the managers to add value by conducting ESG fundamental research themselves. Also, smaller companies often have limited internal resources to focus on ESG, so many are keen to engage with the managers, who are able to help advise them and encourage them towards those ESG aspects required by shareholders.

Gearing

AUSC has a £40m revolving credit facility (RCF) with Royal Bank of Scotland International, which expires on 1 November 2025 (and has a further £25m uncommitted accordion provision). At the beginning of FY24, £25m of the RCF was drawn down, with a further £15m utilised in March 2024, reflecting the managers' increased confidence in the positive outlook for UK smaller companies.

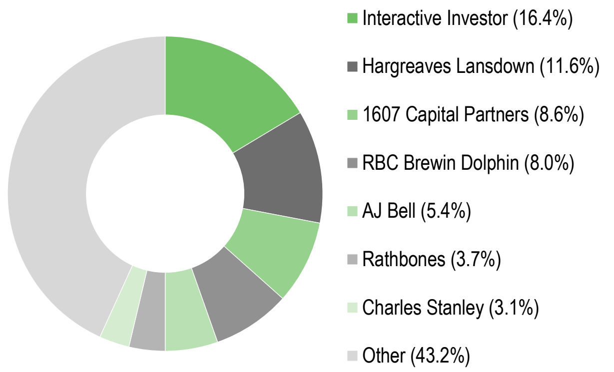
Fees and charges

With effect from 1 July 2023, the management fee is calculated quarterly in arrears at a rate of 0.75% per year on the first £175m of NAV, 0.65% per year on NAV between £175m and £550m, and 0.55% per year above £550m. From 1 January 2024, the manager no longer receives a secretarial and administration fee, which had been £75k plus VAT. However, it does receive a separate fee to provide AUSC with promotional activities; this was £207.5k plus VAT in FY24, which was considerably lower than £301.0k plus VAT in FY23. These changes contributed to a lower ongoing charges ratio of 0.92% in FY24 (FY23: 0.95%).

Capital structure

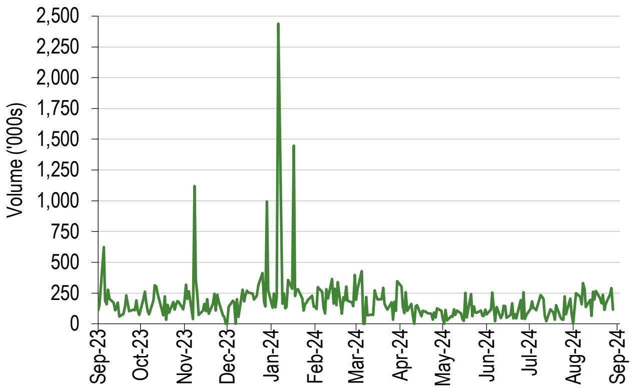
AUSC is a conventional investment trust with one class of share. There are c 73.2m ordinary shares in issue and c 31.0m held in treasury. Its average daily trading volume over the last 12 months is c 185k shares.

Exhibit 12: Major shareholders



Source: Bloomberg. Note: At 30 June 2024.

Exhibit 13: Average daily volume



Source: LSEG. Note: 12 months to 23 September 2024.

The board

Exhibit 14: AUSC's board of directors

Board member	Date of appointment	Remuneration in FY24	Shareholdings at end-FY24
Liz Airey (chairman since 1 April 2020)	21 August 2019	£40,700	50,000
Tim Scholefield	20 February 2017	£29,400	8,200
Ashton Bradbury	2 July 2018	£27,500	10,000
Alexa Henderson	8 October 2018	£27,500	4,391
Manju Malhotra	1 May 2023	£30,695	Nil

Source: AUSC

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