F&C Global Smaller Companies PLC

REPORT AND ACCOUNTS 2017

F&C Investments

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Financial Calendar	
Annual General Meeting	27 July 2017
Final dividend payable*	11 August 2017
Half-yearly results for 2018 announced	December 2017
Interim dividend payable	January 2018
Final Results for 2018 announced	June 2018

*To shareholders on the register at the close of business on 14 July 2017

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares or your holding of 3.5% Convertible Unsecured Loan Stock 2019 in F&C Global Smaller Companies PLC please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Introducing F&C Global Smaller Companies PLC

F&C Global Smaller Companies has operated as an investment trust since 1889.

Our objective is to invest in smaller companies worldwide in order to secure a high total return.

We ignore the largest listed companies, focusing instead on smaller quoted stocks which display the potential for superior growth. Our investment team is consistently able to construct a portfolio of attractive small cap stocks with business models that are able to thrive in the ever-evolving corporate landscape.

We recognise the particular risks inherent in smaller company investing. Our portfolio is invested across many individual companies and funds, providing a global exposure to stock markets and sectors reducing the risk of over-exposure to any one company, market, currency or industry.

Our record of increasing the dividend for 47 years in a row is one that we are proud of. By focusing on companies that have the potential to deliver future growth, we hope to receive an increasing stream of investment income in the years ahead.

F&C Global Smaller Companies is suitable for retail investors in the UK, professionally advised private clients and institutional investors who seek growth over the long term, and who understand and are willing to accept the risks, as well as the rewards, of exposure to smaller companies.

Visit our website at www.fandcglobalsmallers.com

The Company is registered in England and Wales with company registration number 28264
Legal Entity Identifier: 2138008RRULYQP8VP386

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

Financial Highlights

Consolidating our performance record

28.4%

Strong performance with 28.4% diluted Net Asset Value ("NAV") total return

The diluted NAV[1] rose to 1,263.52p from 994.50p.

28.5%

Share price total return[2] of 28.5%

The share price rose for the eighth consecutive year ending at 1,273p.

12.25 pence

Dividend of 12.25 pence – 47th consecutive annual increase

We recognise the importance of a rising dividend in real terms. The total dividend for the year is 12.25 pence, an increase of 14.5%.

0.8%

Shares ended the year at a premium of 0.8%

For most of the year the share price traded at a premium to the diluted NAV.

(1) Diluted NAV – see Glossary of Terms, page 89, for explanation
(2) Total return – see Glossary of Terms, page 91, for explanation

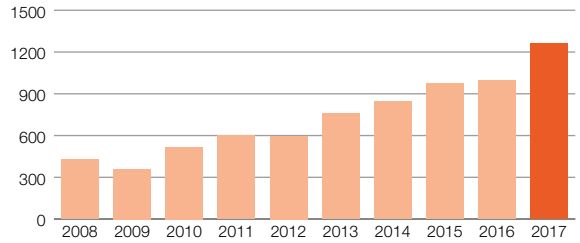
Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Long-term Summary

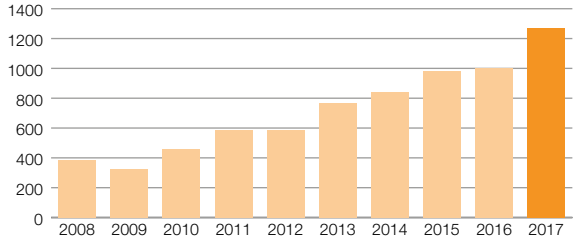
In the last ten years F&C Global Smaller Companies has turned a £1,000 investment, with dividends reinvested, into £2,997 compared with £2,496 from the Company's Benchmark.

NET ASSET VALUE[1] PER SHARE AT 30 APRIL (PENCE)



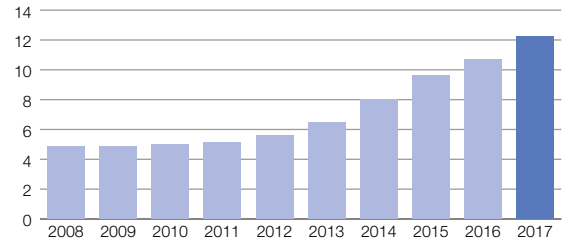
Source: F&C

MID-MARKET PRICE PER SHARE AT 30 APRIL (PENCE)



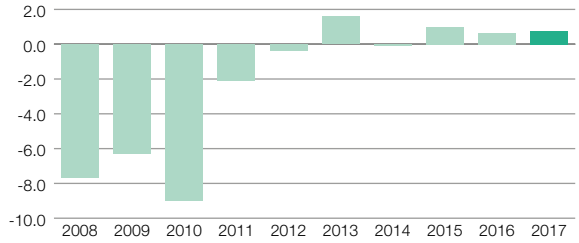
Source: F&C

DIVIDENDS PER SHARE (PENCE)



Source: F&C

PREMIUM/(DISCOUNT) AT 30 APRIL (%)



Source: F&C

The dividend has increased every year for the past 47 years and over the last ten years is up 10.1% compound per annum, compared with inflation of 2.8% compound per annum.

(1) Net Asset Value – see Glossary of Terms, page 91, for explanation

Chairman's Statement

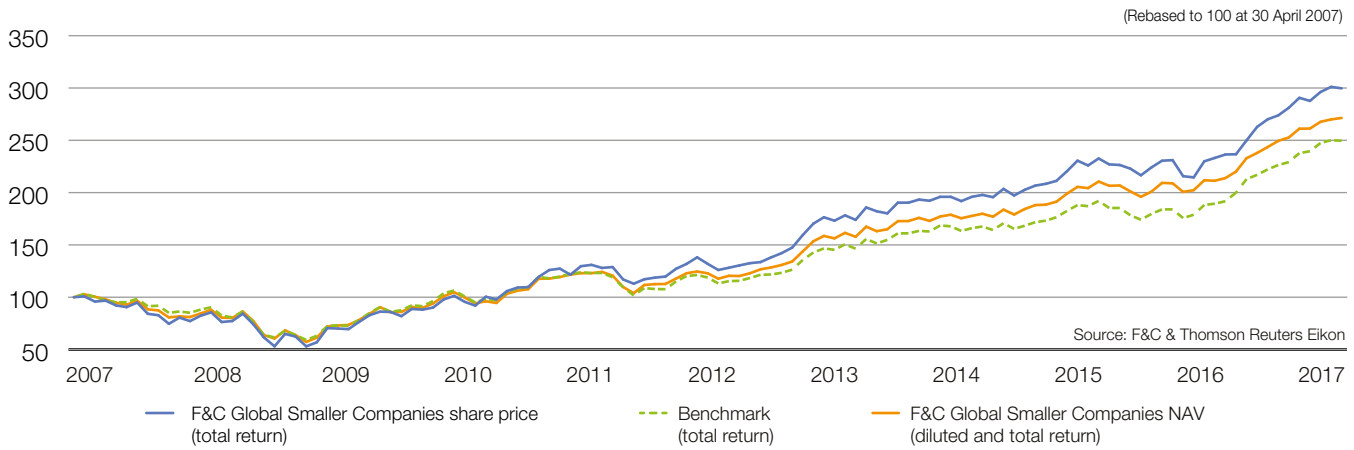
Anthony Townsend, Chairman

Political surprises dominated the headlines in the year under review, but despite the uncertainties created, it turned out to be a profitable time for investors in equities. This is the fifth consecutive year where both the net asset value ("NAV") and share price have risen, and the NAV growth was the second best of the last decade. While this was partly due to the weakness of sterling following the Brexit vote, most stock markets around the world were comfortably up in local currency terms as interest rates remained low, and corporate earnings trends showed signs of improvement.

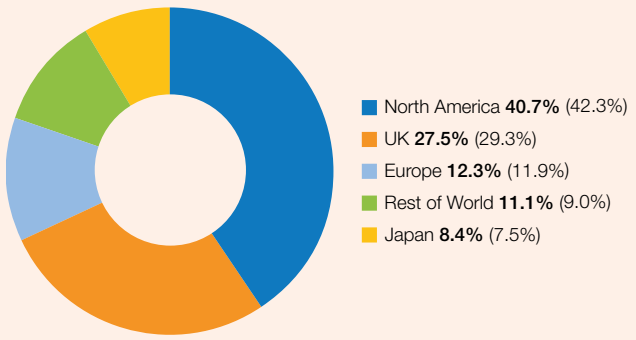
This was a good year on a global basis for small cap stocks, which more than held their own against the larger companies, doing particularly well in the US. The Company's Benchmark is a blended index of the returns from the MSCI All Country World ex UK Small Cap Index and the Numis UK Smaller Companies (ex investment companies) Index in a 70%/30% proportion, and this delivered a total return in sterling terms of 30.4%. The NAV total return was close to this at 29.9% and with the value of the portfolio rising, dilution from the Convertible Unsecured Loan Stock ("**CULS**") issue meant that the NAV return on a diluted basis was 28.4%. The share price rose by 27.2% to 1,273p, delivering a total return of 28.5% taking account of reinvested dividends.

The NAV and share price returns remain comfortably ahead of the Benchmark over the last decade as shown below, while on a 25 year view (see pages 86 and 87) the Company's shares are up nearly 12 fold excluding dividend

Net asset value and share price performance vs Benchmark over ten years



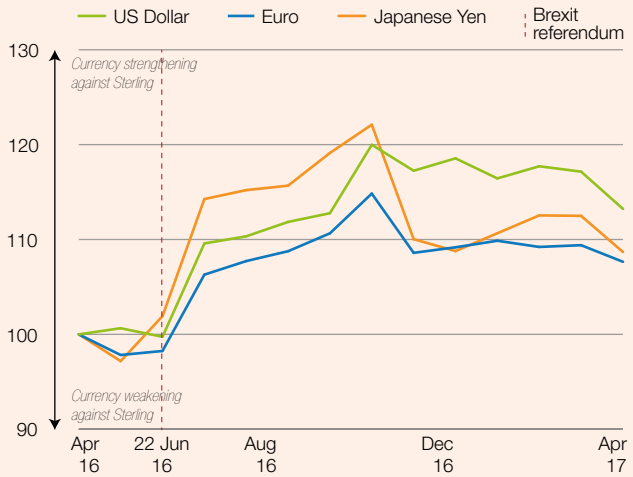
Geographical distribution of the investment portfolio as at 30 April 2017



The percentages in brackets are as at 30 April 2016

Source: F&C

Currency movements relative to sterling in the year ended 30 April 2017



Source: F&C

reinvestment, and almost 18 fold if the dividends paid out had all been reinvested as received.

The shares traded through the year at close to NAV, ending at a 0.8% premium to the diluted cum-income NAV. While investment trust share prices will never precisely track the portfolio performance, maintaining the relative stability of the relationship between the Company's share price and NAV remains a priority for the Board, so once again we will be seeking the usual powers to issue and buyback shares at the Annual General Meeting. During the year 1,723,871 shares (3.1% of the initial share capital) were issued, some of which were as a consequence of two CULS conversions.

Ongoing charges for the year edged down to 0.84% (2016: 0.85%) excluding performance fees and were 0.86% (2016: 0.85%) including performance fees. The performance fees here relate to our investment in a number of collective funds which themselves pay performance fees. Following the change to the management fee arrangements last year we no longer pay a performance fee to the Manager, F&C.

Dividends

There was good growth in dividends from the portfolio and the fall in the pound enhanced the sterling value of the income derived from our overseas investments, lifting diluted revenue returns per share up 17.1%. The Board is therefore recommending a final dividend payment of 8.25p per share, up 5.8% on last year's payment, making a total dividend for the year of 12.25p per share, up 14.5%. This will be the 47th consecutive year of growth, and the 6th year in a row of double-digit percentage increases. The final dividend will be paid on 11 August 2017 to shareholders on the register on 14 July 2017.

Market and portfolio performance

All parts of the portfolio, as shown in the chart on page 6, produced strong returns. At the market level, US small caps led the way with stocks here lifted by the perception that the new administration under Donald Trump would enact sweeping tax reform, supportive for both the consumer and corporate sectors. There were also hopes that US growth would be enhanced by greater spending on infrastructure projects. Although oil prices have recently fallen in spite of OPEC's attempt to curb the output of crude oil, the Federal Reserve Bank increased US interest rates twice in a precautionary move against the potential revival of inflationary pressures.

Growth in Europe improved, driving greater interest in small cap stocks geared into the local economies. UK small cap shares shrugged off initial Brexit driven falls, with the domestic economy proving more resilient than expected after the referendum. The UK consumer continued to spend and there has been some benefit to exporters from the weaker pound. Japanese small cap shares performed well again following a strong 2015/16, with the Bank of Japan continuing to engage

in quantitative easing, and we saw better returns at last from Asian and Latin American small caps. These markets recovered after initially falling after the US election on fears that protectionist policies from the new administration could impact upon trade with the US. China's economy continued to rebalance towards consumer orientated growth, but the pace of expansion in the level of outstanding debt in the country continues to be somewhat alarming.

In terms of the relative performance of the sub-portfolios, a better second half in the UK meant that this part of the fund beat the local market for a seventh consecutive year. Our Japanese fund portfolio was comfortably ahead of the MSCI Japan Small Cap Index, with a bias towards value stocks helpful. Performance in the Rest of the World portfolio, which is predominantly focused on Asian funds was also respectable, slightly surpassing the Asian small cap benchmark return, although Latin American small cap markets did better still.

In Europe and the US, our portfolios were unable to keep pace with the indices. The more marked underperformance in the latter market was partly due to under-representation in the technology sector which was in favour and also from having less exposure to the smallest market cap stocks which led the rally in the US market following the election. Full details on the background to performance is contained in the Managers Review on pages 11 to 20.

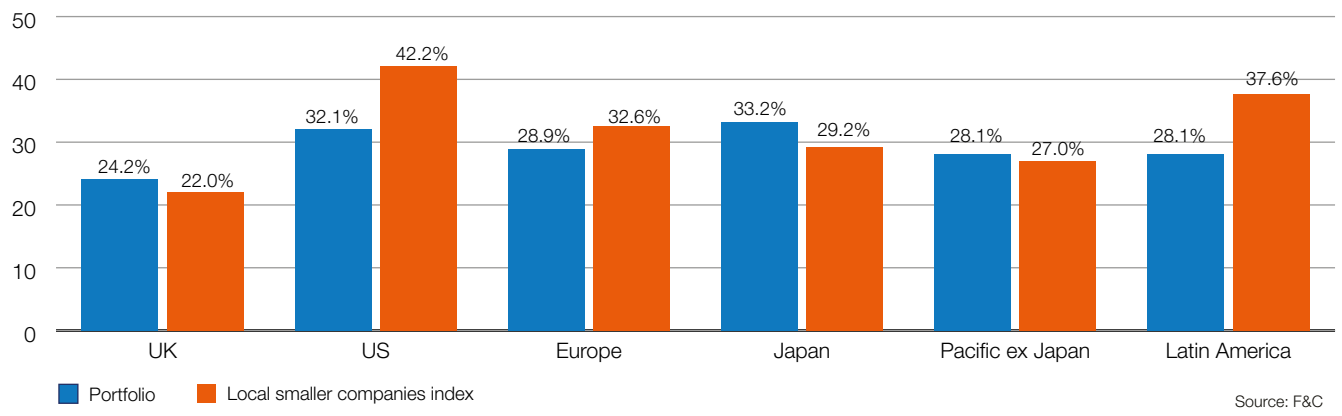
The Company is listed as the second most consistent performing investment company over the past decade in recent research released by the Association of Investment Companies.

Asset Allocation

With political developments creating periods of volatility in the equity and foreign exchange markets, it was difficult to have high conviction over the right stance to take from an allocation point of view. We did however, benefit from being underweight to sterling based assets, with the UK market return lagging the other markets, and from being overweight for the bulk of the period in the US.

Over the first half of the year, we increased our investments in the Far East. While the US election result caused some disquiet amongst investors in these markets, there has more

Geographical performance (total return sterling adjusted) for the year ended 30 April 2017



Source: F&C

recently been a bounce in sentiment towards emerging markets as a whole.

Through the second half of the year, the Manager decided to reduce exposure back to neutral versus Benchmark in the US after the post-election surge. It is felt that global investors are likely to look more favourably on European-centric stocks in the coming period given the improved local economic outlook. Following the recent Dutch and French election results, we added to our European weighting.

Gearing

The Board believes that the use of a moderate level of structural gearing is likely to be beneficial over the long term. Taking account of the CULS and net cash held in the normal course of portfolio management, effective net gearing was 3.4% at the end of the year, down from 4.4% at the half year stage.

The extent of gearing capacity created by the CULS is now less significant than at the time of the issue in 2014 as a consequence of the growth of the Company's net assets and some early conversions of the loan stock into equity. The Board is therefore reviewing potential options to take on additional borrowing facilities. Such facilities would only be deployed on a measured basis given the extent of recent market returns.

The Board

There have been no changes to the Board during the year and, notwithstanding the Company's Articles of Association, all the Directors will stand for re-election by shareholders at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company this year will be held at Pewterers Hall, Oat Lane, London EC2V 7DE on Thursday 27 July 2017 at 12 noon, and we hope as many shareholders as possible will attend. As usual there will be a detailed portfolio review by our Lead Manager. A map of the venue is included in the Notice of Annual General Meeting on page 81.

Outlook

After such a strong year, it is reasonable to expect a period of consolidation in the near term. Many stocks are trading at record valuation levels, raising question marks over the potential for further upside, particularly at a time when US interest rates are forecast to continue to rise. The markets will be watching to see if tax reforms are deliverable by the Trump administration, together with how the debate over trade policy evolves. The implications of the general election result in relation to the Brexit process are as yet unclear, but heightened political uncertainty is unwelcome for markets. The Board remains of the belief that a broadly diversified, actively managed investment trust can still deliver good returns over the medium term from the attractive and dynamic global small cap asset class.

Anthony Townsend
Chairman
20 June 2017

Business Model

Our objective is to invest in smaller companies worldwide in order to secure a high total return.

Our approach

In most parts of the world, smaller company equities have historically delivered strong longer term returns to investors ahead of overall equity market returns. As an investment trust, the Company is particularly well suited to long-term investment in these smaller less liquid companies. Our approach is to seek out suitable long-term global investment opportunities in publicly listed companies with market capitalisations that fall into the generally accepted local definition of a smaller company.

Our appointed Manager, F&C, places particular focus on fundamental analysis of the opportunities in the North American, UK and European stock markets. The emphasis is on meeting individual companies and understanding the quality of their management, their position in their targeted market and their strategy for growth. Importantly, assessment is made on each individual company's financial strength and cash flow dynamics. The aim is to invest in high quality companies at attractive prices with the potential to deliver strong returns. We use funds to gain exposure to companies in areas where our Manager lacks dedicated smaller company investment management resource, such as in Japan, Asia, Latin America and Africa. Exposure to the different geographic markets is adjusted within specific ranges in the light of the attraction of local valuations and the outlook for currencies, but stock selection is the main driver of the Company's overall returns. A full list of investments appears on pages 24 to 27.

The Board

The Board of Directors is responsible for corporate strategy; corporate governance; risk and control assessment; the overall investment and dividend policies; setting limits on gearing and asset allocation; monitoring investment performance and for approving marketing budgets. The Directors have considered their duties under section 172 of the Companies Act 2006 in promoting the success of the Company for the benefit of stakeholders who are, in the main, our retail shareholders. This includes duties towards responsible ownership, which are explained on page 9. An important responsibility is the formal annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager. The wholly non-executive Board comprises three male and three female Directors.

The Lead Manager

As Lead Manager on behalf of F&C, Peter Ewins is responsible for the allocation of the assets on a regional basis and for the construction of the investment portfolio including the selection of any smaller company investment funds utilised. F&C has a team of smaller company investment managers that support the Lead Manager in the selection of stocks for the North American, UK and European stock markets.

F&C's fee as Manager is based on the market capitalisation of the Company, thus fully aligning their interests with shareholders through share price performance. The ancillary functions of administration, secretarial, accounting and marketing services are also carried out by F&C.

Marketing

F&C promotes investment in the Company's shares, which are suitable for retail distribution in the UK as well as professionally advised private clients and institutional investors. The Board works closely with F&C to ensure optimal delivery of the Company's investment proposition through all available channels including the internet and social media. The F&C Savings Plans remain a cost effective and flexible way to invest in the Company.

With a significant proportion of our shareholders being retail investors, and savings or execution-only platforms representing an increasingly significant and growing element of the register, your Board remains focused on the effective promotion of the Company.

Policies

Responsible ownership

The Board supports F&C in its belief that good governance creates value. F&C takes a particular interest in corporate governance and sustainable business practices, and continues to work on systematically incorporating environmental, social and governance factors into its investment processes. This is based on the view that companies with strong management focus on these areas have the potential to reduce risks facing their business and deliver sustainable performance over the longer term. Engagement with companies on significant matters, so as to reduce risk, improve performance, encourage best practice and underpin long-term investor value forms an important part of F&C's approach towards responsible investment.

The Board annually receives a report on instances where the Manager has voted against the recommendation of an investee company management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments. Information on F&C's engagement and voting at company meetings in relation to the Company and where to find their statement of compliance with The UK Stewardship Code can be found on pages 34 and 35.

Dividend

The Company's revenue account is managed with the objective of continuing its record of delivering a rising income stream in real terms for shareholders. Prudent use of revenue reserves established over many decades is made whenever necessary to help meet any revenue shortfall.

In determining dividend payments, the Board takes account of timely income forecasts, brought forward distributable reserves, prevailing inflation rates, the Company's dividend payment record and Corporation Tax rules governing investment trust status. Liquidity is not considered an issue as the Company has sufficient liquid resources to fund any likely level of dividend payment. Risks to the dividend policy include: worldwide financial and political instability leading to significant deterioration in the level of income received by the Company; and unforeseen and significant changes to the Company's regulatory environment.

Investment policy statement

The Company invests in smaller companies worldwide in order to secure a high total return. It pursues this investment objective by investing in a large number of stocks in various industry sectors globally. It seeks attractively valued investment opportunities wherever they may be without constraint to specific sector or geographical exposure limits.

Investment is made mainly in publicly listed equities including those on the Alternative Investment Market. Investment can also be made in other types of securities or assets including collective investment funds. No more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. Investments in unlisted securities require prior Board approval. No transaction can be made which would increase the value of any holding of the Company to exceed 10% of the value of the total portfolio.

The Company can borrow in either sterling or foreign currencies. Effective gearing is limited, in normal circumstances, to a maximum of 20% of shareholders' funds. Derivative instruments, such as futures, options, and warrants, can be used for efficient portfolio management up to a maximum of 10% of the NAV at any one time. The Board, with advice from the Manager, considers the foreign exchange outlook, as this can affect both the asset allocation and borrowing strategy, and can hedge the portfolio against currency movements. No such hedging has been undertaken in the period under review.

Gearing

The Board believes that structural gearing throughout the investment cycle is appropriate for the enhancement of future shareholder returns. The Company therefore issued £40m of 3.5% Convertible Unsecured Loan Stock ("**CULS**") in July 2014 which matures on 31 July 2019. The Company has set a gearing level as explained above in the Investment Policy Statement.

Share issues and buybacks

In recent years, the Company has issued new shares in order to provide liquidity to the market and to moderate the premium at which the shares trade in relation to the NAV per share. In the event that the shares revert to trading at a price lower than the NAV, the Board would aim to keep the discount at no more than 5% in normal market conditions. In either scenario, this strategy has the benefit of enhancing NAV per share for continuing shareholders.

Key Performance Indicators

The Board assesses its performance in meeting the Company's objective against the following measures, including regional performance against local benchmarks set out on page 11. Commentary can be found in the Chairman's Statement and Manager's Review in relation to regional performance. A 25-year historical record of these indicators (excluding ongoing charges) is shown on pages 86 and 87.

Total return* performance

	1 Year %	3 Years %	5 Years %	
Company NAV (diluted) total return	28.4	54.6	120.9	This measures the Company's share price and NAV total returns, which assume dividends paid by the Company have been reinvested, relative to the Company's Benchmark.
Benchmark total return	30.4	51.3	108.0	
Company share price total return	28.5	56.2	127.3	

Source: F&C
*See glossary of terms on page 91.

Premium/(Discount) (including current period income)

At 30 April	%	
2017	0.8	This is a measure of the divergence between the share price and the diluted NAV per share. The Company has issued shares whilst the share price is at a premium.
2016	0.7	
2015	1.0	
2014	(0.1)*	
2013	1.6*	

*Debenture at market value

Source: F&C and Thomson Reuters Eikon

Ongoing charges* (as a percentage of average net assets)

30 April	% (excluding performance fees)	% (including performance fees)	
2017	0.84	0.86	This data measures the running costs of the Company (including where applicable the performance fees suffered in underlying funds) as a percentage of the average net assets.
2016	0.85	0.85	
2015	0.79	1.08	
2014	0.76	0.78	
2013	0.85	1.49	

Source: F&C
*Calculated under the AIC Guidelines. See page 91

Dividend growth

	1 Year %	3 Years %	5 Years %	
Dividends	14.5	53.1	117.7	This compares the Company's dividend growth rate to the rate of inflation.
Retail Prices Index	3.5	5.8	11.6	

Source: F&C and Thomson Reuters Eikon

Manager's Review

Peter Ewins, Lead Manager

The last year was a period where political developments created a myriad of uncertainties and this is not usually deemed to be good for stock markets. Nevertheless, after the dust had settled and account had been taken of an improving global economic picture, the year ended with strong gains for global equity markets.

Relative outperformance against Benchmark is always our aim, but sadly we didn't manage to achieve it this year as the Benchmark was up by 30.4% compared to basic and diluted NAV increases of 29.9% and 28.4% respectively and a 28.5% share price return. More positively, long term performance on both an absolute and relative basis remains strong, with a ten year compound annual growth in diluted NAV and share price of 10.6% and 11.6% respectively, ahead of the 9.6% from the Benchmark.

It will be some time before the long term implications of Brexit become clear. However, the fear that there would be a rapid negative impact on consumer confidence and spending following the decision to leave the European Union, turned out to be overly pessimistic. Conventional wisdom now justifies the resilience of the UK economy on the basis that there had been good momentum ahead of the vote and that little so far has really changed, aside from sterling being lower, which is helpful for exporters. Although companies operating in the UK have to review their future plans, not many yet have made the decision to cut staff numbers. Coming to an amicable conclusion to the negotiations with Europe to ensure as free trade as possible will be important for UK companies. Given the differing interests of the negotiating parties, we should expect a lot of political posturing and disagreements to become public in the year ahead.

In relation to the US election, it had been felt that the more market friendly result would have been a win for Hillary Clinton and the Democrats, which would have changed less. However, the stockmarket's initial post-election slide was quickly reversed. Sentiment swung behind the theory that Donald Trump could actually be good for US companies with his plans to significantly cut the corporate tax rate and boost the growth rate of the economy via lower personal taxation and more infrastructure spending. With unemployment now well below 5%, inflation rising to over the targeted 2% level, and given the planned agenda of the new government, it was perhaps not surprising that the Federal Reserve eventually decided to move up interest rates.

Commodity prices gyrated, with OPEC forced to agree a production cut to stave off a renewed plunge in oil prices. On the other hand, some metal prices surged on the back of better demand from China. With economic news getting better in Europe from a low base and after the US election result, a growing perception that the era of ultra-low inflation and interest rates might be coming to an end, prompted a sector rotation. Those areas which have benefitted from low

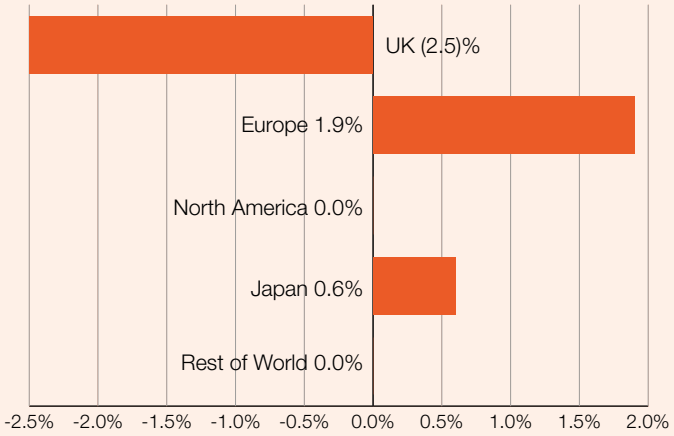
Table of returns

	1 year		3 years		5 years	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK	24.2%	22.0%	51.6%	31.9%	147.0%	101.7%
North America	32.1%	42.2%	64.1%	69.4%	136.7%	131.1%
Europe	28.9%	32.6%	51.2%	45.6%	140.3%	132.5%
Japan	33.2%	29.2%	86.9%	84.1%	135.2%	108.8%
Rest of World*	28.1%	27.0%	28.0%	38.3%	45.8%	51.7%

*Rest of World performance is compared against the MSCI All Countries Asia Pacific ex Japan Small Cap Index

Source F&C, sterling total returns

Geographical weightings against Benchmark as at 30 April 2017



Source: F&C & MSCI

borrowing costs, notably real estate, and other perceived high yielding defensive areas such as utilities fell out of favour, with greater interest evident in financials (especially banks) and more cyclical areas. We saw this pattern across most of the markets.

Stocks are put in the portfolio on their own merits, but it's also important to consider which parts of the market are likely to perform well. While some sectors are more relevant than others in a small cap sense, we sought to make some adjustments to our sector allocations while maintaining a long term focus in assessing the attractiveness of individual companies. It would be a mistake however, to engage in portfolio turnover based solely on the latest mood of the market or tweet from a politician. Turnover on the portfolio was proportionately slightly lower during the year after taking account of the larger size of the fund.

Performance relative to the relevant small cap market returns, was mixed this year. While in overall terms we were held back by a tough year in the US, it is good to see in the table on page 11 that in all aside from the Rest of World segment, we are ahead of the local small cap market on a five year view. This demonstrates that it remains possible to beat the index from an active investment approach to small cap investing at a time when passive investing, or index tracking, is becoming more popular.

On the asset allocation side, we do not seek to micro-manage weightings on a daily basis. Changes in our relative positioning are often more due to short term relative market performance than as a result of genuine re-allocations. In the last year we felt for the majority of the period that an overweight stance to US dollar assets would benefit the fund. The prospect of higher US rates was expected to be supportive for the currency at a time where rates elsewhere were tending to plumb new depths. The Brexit vote only served to make currency traders more positive in relation to the dollar on safe haven grounds. Late in the period, however, we felt that US stock valuations looked too high relative to elsewhere, so we cut back our US exposure. We remain underweight in the UK for now despite some net investment late in the year as new ideas were identified. We also added more recently to our European holdings. With better economic headlines, ongoing support from the European Central Bank, somewhat diminished political risks in the short term and improving news from corporate earnings, it felt sensible to be overweight to Europe.

We had added to our Asian exposure early in the year after a protracted period of poor performance relative to other parts of the world. The US election result prompted us to become more cautious as we felt that the region's markets could struggle until US trade policy under the new administration was clarified. More recently, emerging markets have attracted capital inflows as investors have become more relaxed about the risks.

At the individual stock level we continued to favour companies with a modest level of financial leverage, and we made a number of sales of holdings in companies where we felt net debt was too high. At a time when interest rates may start to move up and potentially now not just in the US, this is a prudent approach.

Our own leverage or gearing has been relatively modest in the year, and as stated in the Chairman's Statement, the Board is presently considering options to provide greater scope on the borrowings side in the future. The ability to gear is one of the benefits of the investment trust structure, and the amount of capacity that any fund has in hand, needs to be kept under review in relation to the size of the asset base.

Dechra Pharmaceuticals' product range of treatments is used extensively in the equine market. Photo supplied by Dechra Pharmaceuticals.

UK Review	One year
Portfolio Performance	**+24.2%**
Numis UK Smaller Companies (excluding investment companies) Index	**+22.0%**
FTSE All-Share Index	**+20.1%**

An improved second half allowed us to post outperformance compared to the UK small cap market. This had lagged other global indices in the first half but as fears about Brexit eased, UK small cap stocks recovered, ending the year ahead of the broader UK market.

The UK economy grew by 1.8% in 2016, ahead of European peers and the US, with consumer spending remaining strong post the Brexit vote. The manufacturing side of the economy received a lift from the lower sterling exchange rate and from better demand from the Continent.

At the margin, we increased our exposure to overseas earners post the Brexit vote but as we always hold a broadly spread portfolio, we didn't need to execute a radical repositioning. Looking back at previous points in time when sterling has fallen suddenly is a worthwhile process as it can provide a guide to how individual companies will perform, but of course the structure of companies and the strength of their management teams does change over time.

There are once again a good number of positive contributors to report upon, with two of our holdings more than doubling. Shares in **Fevertree Drinks**, the specialist tonics supplier, rose by 166.7% as the company achieved stunning sales growth in the UK and its global distribution continued to expand. We took some profits as the shares moved up but remain confident that the business has plenty of scope for further expansion. The shares of flavours and fragrances business **Treatt** also surged 117.3% with the company upgrading its profit expectations substantially as its products in the sugar reduction, tea and citrus areas, sold well.

The real estate sector was weak heading into, and immediately after the Brexit vote, but regained some ground late in the period as fears about the economic impact moderated. Our stock selection in this area was positive, with the holding in **Sirius Real Estate**, which owns German light industrial and office buildings, benefiting from a re-rating. Management are having success in adding value to buildings by refurbishing them and enhancing occupancy, helped by firm tenant demand. The shares are also receiving more attention now following the move to a premium London stock market listing.

A number of our engineering and industrial focused stocks did well reflecting the fall in the pound and greater optimism around the outlook for global industrial production. **Hill & Smith**, **Trifast** and **XP Power** were all up strongly as profits beat expectations. Our holding in sensors business **E2V** recovered from a profits downgrade after a larger US company pounced with a bid. We also benefitted from what

turned into a contested takeover battle for equipment hire business **Lavendon**. Less positively **Senior Group** shares underperformed markedly over the year as the company suffered from weak demand in its truck and oil related operations, together with a margin squeeze on the core aerospace side.

In the healthcare area **Clinigen** once again performed well with increased confidence in the integration of several large strategic acquisitions allowing the share price of this global drug access management business to move forward. **Dechra Pharmaceuticals** delivered further good organic and acquisitive progress, building on a long track record over the near ten years that we have owned the shares.

Specialist services businesses **Clipper Logistics**, **Sanne Group** and **Next Fifteen Communications** all continued to be well supported on the market. Clipper is a leader in the online retail logistics market and continues to win new accounts, while fund administration business Sanne made a transformational acquisition in Mauritius which we supported via a placing of new shares. The company's strong recurring fee based model has led to a major re-rating since the float in 2015. Next Fifteen Communications provides a range of communication services including digital content, marketing, PR and market research, mainly serving technology clients. Business in the US was strong and profit margins rose, boosting the bottom line.

In the technology sector our holding in **Craneware**, a software company based in Scotland but serving the US hospitals market, went from strength to strength as it won further new business. Software business **Sophos Group** gained market share as its user friendly and distributor friendly security products continued to be well received. Less positively, our holding in **Laird** suffered as the company lost business with Apple and was forced to conduct a rights issue. We supported this raise as we believe there to be value in the business franchise and 2017 has started more encouragingly under a new management team.

The retail sector was positive for us in the year. **JD Sports** once again posted outstanding figures and we took profits following the rise in the shares. Our underweight stance in the sector worked out well as a number of stocks suffered on the back of poor results, with sentiment worsening post Brexit. One of our weaker performers was car retailer **Vertu Motors**, where the market has, we believe, become too cautious on the outlook.

This year's best contributor in terms of new holdings was Egyptian focused exploration and production company **SDX Energy**. We participated in a placing by the company to acquire additional assets at what looked like a bargain price, and subsequent to this the company announced a significant gas discovery. Plastic piping business **Polypipe** also did well, beating expectations despite the impact of higher input prices post Brexit, with results helped by stronger building activity levels. Taking a holding in the IPO of the fast-growing electrical goods business **Luceco** was the right decision, with the shares rising 87.7% as investors were attracted to the potential of its burgeoning LED business.

Relative performance would have been better still had it not been for the rise in mining shares in the early part of the year, as we were under-represented in this sector. Although few of our holdings fell heavily, we suffered from holding **Novae Group**. The insurer endured a poor year on the underwriting front, was forced to change its accounting policies and suffered from a legislated increase in compensation payments for large personal injury claims. This prompted a dividend cut and we decided to sell the shares. Another costly holding was sports agency business **TLA Worldwide**. The company's shares fell sharply early in the year as a bid approach fell away and then fell again in April as the company issued a profit warning.

Looking forward, there is now evidence to suggest that higher prices are starting to impact upon consumer spending. The inconclusive result to the general election has created further uncertainty around the Brexit process, while another election with potentially far reaching policy implications can't be ruled out. We have however, been pleased by the recent trading news from many of our companies, with more upgrades than downgrades coming through. While it has been appropriate to take profits on some of our long-standing holdings, we are still finding new ideas to add to the portfolio.

European Review	One year
Portfolio Performance	**+28.9%**
Euromoney Smaller Europe Ex UK Index	**+32.6%**
FTSE All World Developed Europe ex UK Index	**+23.3%**

European small caps delivered a strong return for the year after the Brexit-led volatility of the summer, and ended the year ahead of the large cap market. While our portfolio underperformed, the scale of this was softened by an improved performance in the second half of the year.

Inwido is Europe's largest supplier of windows, with a particularly strong share in the Scandinavian markets. Photo supplied by Inwido.

As discussed elsewhere, politics loomed large over the year. Brexit created fears that the trend towards populism could lead other countries to seek an exit from the EU, and at different points of time, Spain, Italy, the Netherlands and France were the focus of attention from a political perspective. Stock markets however made solid progress as fears of an implosion of the EU reduced, and the region showed good economic progress, with leading indicators of late pointing to an acceleration of economic growth. Particularly powerful for the smaller companies market, this is now filtering through to company results, delivering upgrades to earnings expectations.

Stock selection in the consumer sectors was negative in the year, and one of the worst culprits in this area was **Amer Sports**, the Finnish sports goods company. The company owns some strong international brands, such as Salomon, Wilson, Atomic, Arc'teryx and Mavic, but the shares lagged following disappointing full year results. Of note was the challenging launch of a new sports watch, and poor performance in the US, where the market suffered from a number of bankruptcies of sports retailers. We have conducted a review of these issues and are currently comfortable that they are temporary, though we will monitor the company's operating performance closely.

CTT Correios de Portugal, suffered from a disappointing performance in its traditional mail business, poor growth in its parcel business and concerns over an announcement that the Portuguese government were going to make more of their communications electronic. We initially bought the stock because we believed that while traditional mail was bound to decline, this would be more offset by growth in parcel delivery, as online shopping in Portugal grew to catch up with the European average. Additionally the company offered a high dividend yield backed by a strong balance sheet. While the recent news flow is disappointing, we have held on.

Another stock that struggled was **IFG Group**, owner of the James Hay investment platform business and the Saunderson House IFA business. While trading in the latter area has been strong, margins came under pressure on the James Hay side, not helped by a reduction in the UK base rate, feeding through to lower income and downgrades. We still believe that there is value in the Group that will be evident over time.

While not all went to plan, the performance of a number of relatively recently acquired holdings was pleasing, as was the recovery of some stocks that had been hit particularly badly, and as we argued in the interim report, unfairly, by Brexit.

Of the newer holdings the stand out performer was **Lectra**. This French listed company manufactures and distributes computer systems and machines that are used in design and textile processing which enable the automation of fabric cutting. They primarily sell into the fashion, automotive and furniture industries. The shares rose sharply after we invested,

driven by strong results whilst also being helped by increasing coverage from brokers. Shares in Italian machinery business **Industria Macchine Automatiche** (in which we had invested during the previous financial year) supplying a range of global packaging equipment markets, rose 59.2% as good results came through. Another holding from the last year, Dutch based chemicals distributor **IMCD**, appreciated as a cyclical upturn in demand fed through to results.

Of the stocks that had originally been hit by Brexit, two Irish listed stocks staged a major recovery. **Origin Enterprises**, the agronomist whose largest exposure is to UK farming, bounced back as the financial outlook for farmers improved. The rise of the euro versus sterling lifted UK farm incomes and hopes rose for a more normal spring season after the very wet comparable period in 2016. **Irish Continental Group**, the ferry and freight operator, also recovered from its summer weakness as trade between the UK and Ireland continued to thrive.

Ultimately though most of our top gains over the year came from longer term holdings with outstanding performance coming from our Norwegian financial holdings **Storebrand** and **Sparebank**. Both benefitted from a combination of rising bond yields and the country's improving economic outlook due to the slightly firmer oil price. **Interpump**, the Italian based high pressure pumps supplier, delivered strong organic growth and margin improvement and the shares more than doubled in sterling terms. This was mainly due to the underlying business performance but, in addition to our other Italian small cap holdings, the share price benefitted from demand driven by the introduction of a new tax efficient savings scheme in Italy. This mandates that a certain proportion of a scheme investor's portfolio has to be held in Italian small and mid-sized companies.

ASM International shares gained from a recovery in the company's end markets but also as a result of some shareholder activism; Eminence Capital has taken a large position in the company with the aim of encouraging the company to sell the stake in their Hong Kong listed business. We are sceptical that they will succeed but will continue to monitor the situation. The other winner of the year worthy of mention was **SAF Holland**, which supplies parts into the European commercial vehicle market. The shares rose 54.3% as the cycle turned in the company's favour.

Small caps are more exposed than the larger stocks to the European recovery story. Economic data and leading indicators continue to paint an encouraging picture. With this data now translating into earnings upgrades the outlook for European smaller companies is attractive, though valuations as elsewhere have advanced. so careful judgement in stock selection is necessary.

North American Review	One year
Portfolio Performance	**+32.1%**
Russell 2000 Index	**+42.2%**
S&P 500 Composite Index	**+32.2%**

The Russell 2000 smaller companies index outpaced the larger cap Dow Jones Industrial and S&P 500 indices over the period but lagged the more technology oriented NASDAQ Composite index. Our portfolio was up by nearly a third in sterling terms but lagged the Russell 2000.

In the first half of the financial year the market slowly ground higher despite the shock Brexit vote and uncertainty over the outcome of the US presidential election. Donald Trump's victory, as mentioned before, was a shock and the Republican party also secured majorities in the Senate and the House of Representatives. The market took the view that with such strong backing the new administration would likely follow through on pro-growth campaign promises such as tax reform, de-regulation and increased spending on defence and infrastructure. Smaller, more domestically oriented US companies were seen to be the main beneficiaries from these new initiatives and as a result the Russell 2000 soared after the election.

The last four months of the financial year in overall terms saw a range bound market as investors awaited progress on the passage of policies from the new government. The Federal Reserve raised interest rates twice in the second half of the financial year as inflation and employment made significant progress towards targeted levels.

Over the year the best performing sectors within the market were technology, materials and processing and producer durables, while the laggards were energy, consumer staples and consumer discretionary. Within the year however, as elsewhere there were periods when sector leadership changed hands.

Most of the underperformance from the portfolio came after the election when there was a surge of US retail investment in small stocks through exchange traded funds. This particularly helped smaller and less liquid stocks in the benchmark, including some low quality businesses where the risk profile doesn't fit our investment process.

Although it was a tough year for us, a number of holdings did outstandingly. **WellCare Health Plans**, a provider of managed care services, was up 70.5% as the new management team made an attractive acquisition and improved the company's margins by negotiating a more favourable drug purchasing contract. **CDW** (a value added reseller of technology products) benefitted from a healthy operating environment, solid management execution and share repurchases. **Vail Resorts**, an operator of high end ski resorts which has featured regularly over the years, continued to deliver impressive earnings growth. The company benefitted from improved profitability at recently acquired resorts, strong visitor numbers and good season pass growth.

Leucadia National, a diversified investment holding company, saw a turnaround in its two largest operations, the investment bank Jefferies and beef processor National Beef. Our other banking stocks generally performed solidly with the rising rate environment raising hopes for an expansion in net interest margins, and one; **Cardinal Financial**, received a bid from a larger peer **United Bankshares**. In a similar fashion but in a different part of the market, **WCI Communities**, a Florida based luxury home builder, received a takeover bid from Lennar at a healthy premium.

Our exposure to the in-favour infrastructure orientated sectors fed through into a number of good performers, with **Martin Marietta Materials**, the aggregates supplier, doing particularly well in the second half of the year. Road equipment business **Astec Industries** also rose strongly, while welding products supplier **Lincoln Electric**, a new holding from the previous year was one of the stocks to benefit from improved sentiment on the general industrial side.

As ever not everything worked out as planned. **Sabre**, a provider of technology to the travel and tourism industry, saw disappointing performance in the year as the newly appointed CEO decided to invest heavily in the business, to the detriment of near term margins and cash flow. **The Chefs' Warehouse**, a distributor of fine foods to high end restaurants, faced significant challenges with the integration of a recent acquisition and suffered from a slowdown in its end markets. We decided to sell and switched into a lower leveraged company in the sector; **Performance Food Group**, and this performed well into the year end.

Carrizo Oil & Gas, an Eagle Ford shale based oil and gas company, suffered from concerns that the company intends to make a large debt funded acquisition to expand its scale. **The Ensign Group**, an operator of skilled nursing facilities, took longer than expected to integrate the numerous acquisitions that it made during the year, and we decided to sell our holding.

Purchases in the year included several "compounders" or high quality businesses with strong competitive advantages

STERIS works with hospitals to ensure that medical devices and equipment are maintained in a hygienic state to prevent the spread of infections.

Photo supplied by STERIS.

that offer reliable long term growth. **Graphic Packaging** is a vertically integrated producer of folding cartons that are sold to food, beverage and consumer products companies. Free cash-flow should continue to grow through acquisitions, productivity initiatives and share repurchases. **Amdocs**, involved in the provision of billing and customer services to telecommunications companies and **ICON**, a provider of contract clinical research to pharmaceutical companies, should both benefit from increased outsourcing from customers in the industries that they serve.

Considerable uncertainty over the new administration's future policies created opportunities to purchase, at low valuations, **Murphy USA** (an owner and operator of petrol stations) and **The Michaels Cos** (a retailer of arts and crafts products). Both businesses should continue to grow through new openings, market share gains, margin expansion initiatives. **Cubic** was purchased as a recovery situation in the year. This is a provider of systems and services that increase situational awareness and understanding for defence and transportation end markets (for example the company provides the technology behind London's Oyster Card program). Margins and earnings are currently depressed but should recover over the long term through new contract wins and lower expenses.

Our sales were mostly instances where companies performed well and reached their price targets or where we had grounds to believe that our original investment thesis was broken. In the former camp, three examples would be **Arrow Electronics**, **CommScope Holding** and **Grand Canyon Education**. We felt that our original investment thesis for pharmacy operator **PharMerica** no longer stood intact when an industry price war broke out. We also decided to cut our losses in **MEDNAX**, a provider of neonatal and anaesthesiology services, as the company appears to be facing secular pressures on revenue growth, margins and returns.

The near term outlook for the US economy seems to be one of growth in a somewhat late cycle environment. Manufacturing appears to be recovering after a sharp downturn in the energy and commodity related sectors. Housing demand is also better. Improved corporate confidence should lead to a pick-up in capital investment. The employment situation is healthy with jobless claims at very low levels and wages slowly edging upwards. At an aggregated level, corporate earnings growth seems to be up. Despite this, several risks are on the horizon: valuations look stretched, market participants appear complacent, corporate leverage is high by historic standards and political risk is still very prevalent. Accordingly, a cautious approach seems sensible in the current environment.

Japanese Review	One year
Portfolio Performance	**+33.2%**
MSCI Japan Small Cap Index	**+29.2%**
Topix Index	**+28.0%**

Japan's market faced a headwind in the form of a strong yen, but small caps were more in favour and our portfolio beat the market.

Economic growth in Japan tends to lag that of the other developed markets due to the worse demographic profile and GDP growth of a relatively sluggish 1% for 2016 therefore was no great surprise. The government and central bank have for some time been attempting to foster better growth and to lift the country out its protracted period of deflation. During the year the Bank of Japan moved to expand its quantitative easing program, and is now buying equity based exchange traded funds in addition to government bonds. This means that it is effectively providing direct support to the stock market. The extent to which this drove the overall market up is unclear but some small cap share prices will have benefitted. The Bank of Japan also decided during the year to adopt a yield curve control policy, targeting a zero per cent 10 year bond yield, which in theory should be helpful for the profitability of banks, encouraging additional lending activity.

To date the aim of raising the inflation rate has not yet been fulfilled with core consumer prices still barely up. Consumer spending has remained lacklustre despite an unemployment rate that has now fallen comfortably below 3% and strong tourist numbers. The country's exports have however been strong of late, helped by rising sales into China, which is now almost as important a market for Japan as the US.

Despite the tepid overall domestic economic picture, corporate profits performance was pleasing across much of the market. Many Japanese companies have become more efficient and are adopting a more shareholder friendly approach with share buyback activity up to record levels. It is still the case that a large number of companies have surplus cash on their balance sheets and most board structures remain less than ideal. However, there are some signs that the country is becoming more open to allowing in more workers from outside, with more than one million foreign workers now employed in the country.

We invest in two funds at present to gain exposure to Japanese small cap stocks. They are managed by Eastspring and Aberdeen, both of whom have strong investment teams in place to make the investment decisions. This year Eastspring performed excellently, with their focus on value stocks helping at a time when defensive stocks in the market lagged. Some of the fund's holdings in financials, including the banks, benefitted from the policy move mentioned above, while there was also positive stock selection in automotives and technology.

Aberdeen's fund had a more challenging year, with some of it's consumer facing stocks struggling. The portfolio is more based around buying long term quality companies as opposed to lowly rated stocks, and this year growth stalled for some of their holdings. We do not envisage the projected merger between the manager Aberdeen and Standard Life to affect the team or the way that this fund is managed in a material way. The same applies to the Aberdeen Asian small cap fund that we hold on the Rest of World portfolio.

We continue to consider other potential funds and could conceivably include an additional holding at some stage. Over the year, we became moderately more positive on Japan reflecting the earnings data that was coming through, and the fact that valuations in the market looked more attractive, certainly than in the US. The Japanese market is likely to remain sensitive to global growth trends and any changes in the Asian regional outlook.

Rest of World Review	One year
Portfolio Performance	**+28.1%**
MSCI All Countries Asia Pacific ex Japan Small Cap Index	**+27.0%**
MSCI EM Latin American Small Cap Index	**+37.6%**

After a number of poor years, this part of the portfolio managed to broadly keep up with the rest of the fund in 2016/17 with a strong return. Our collectives based portfolio is invested mainly in funds focused on Asian markets, so it was positive to see that we managed to do better than the local small cap benchmark. Gains in Latin America were better still as investors looked to take a more constructive view here after serial underperformance in recent years.

It was a volatile second half of the year however for these markets, with the US election initially prompting a major pull-back, as investors feared that a protectionist approach to trade would hurt emerging markets as a whole. In addition the prospect of higher US interest rates raised concerns that there could be a repeat of previous such periods, when investors had rushed to sell emerging market assets and currencies. Some markets were more impacted than others, with Trump's plans for a Mexican border wall and potential reform of the North American Free Trade Agreement putting Mexico and the peso at the forefront of the sell-off.

As time passed however, fears started to fade, and towards the end of the financial year we saw money flowing back into these markets. To a degree this must also reflect greater confidence in the strength of some of the larger regional country's economies. In reality, many Asian countries have matured over the years and now have lower debt levels than much of the Western world. Some like India have made great strides to cut their trade deficits, making their currencies less vulnerable at times of financial market stress.

Developments in China are always watched carefully by investors in Asia given the relevance of this economy for the other markets on the trade side. Worries early in the period about slowing growth and bad debt problems in the financial sector gave way to other global concerns as events unfolded elsewhere. The Chinese leadership moved to boost the local economy with targeted stimulus, tightened controls to stem capital outflows and adopted new measures to address local bubbles in the property market. Inefficient capacity in some industries such as the steel sector, which has caused international disquiet, is slowly been rationalised. Consumer demand remained strong in the year. Chinese small cap shares performed solidly on the whole although as to be expected given the immaturity of the market there were some notable exceptions.

Indian small caps did very well in the year, with progress in reforming the economy continuing under Prime Minister Modi. Valuations have risen quite a long way in this market now however meriting some caution. Another market to do well in the year was Taiwan, while Korean small caps lagged, undermined by domestic political considerations and the rising tension with North Korea.

In Latin America, the Brazilian market did especially well despite a 3.6% slump in GDP in 2016. The stock market was lifted by a change in political leadership and better demand for its commodity based exports. The local currency, the Real, was one of the strongest performing currencies in the world over the period from a low base point. A levelling off in inflation provided scope for a cut in the level of interest rates as the year progressed.

In terms of our Rest of the World portfolio, we look to make long term investments in funds in the same way that we do when investing in other parts of the portfolio in individual companies. During the year we introduced two new holdings managed by Pinebridge and HSBC targeting Asian small caps. Both of these funds have outstanding records and I am hopeful will do well for us in the coming years. We paid for these holdings by trimming the positions in the Manulife and Aberdeen Asian small cap funds and from the receipt of proceeds from the bulk of our holding in the Aberdeen Frontier Markets trust. The latter action was undertaken following the announcement of a tender offer and a change to the way the trust was to be managed in the future which made it inappropriate for us to remain a holder.

The Pinebridge fund made a strong initial contribution to performance, while there was little time for the HSBC fund to have an impact. Our largest holding, the **Scottish Oriental Smaller Companies Trust** did well. We have always rated the investment team's conservative investment approach and hopefully over time a persistently wide discount will be addressed, or will self-correct. The **Australian New Horizons Fund** lagged in the second half of the year, with some of its medical technology investments failing to hit the anticipated milestones. This fund has performed strongly for us over a number of years.

We enter the new financial year neutrally positioned on this part of the portfolio, but feeling more optimistic about the outlook than a few months ago. Hopefully this will be a better year for earnings in Asia and we will look to adjust exposure accordingly in the coming months.

Conclusion

Looking ahead, most forecasts for the global economy are showing a higher rate of growth in 2017 than 2016. At present the market is factoring in only a modest interest rate rise in the remainder of the year in the US, with inflation forecast to remain well under control here and in the other main markets, though post Brexit price rises are now more evident in the UK.

Central banks may start to reduce their support for markets after a number of years of asset accumulation. Against this backdrop one of the key questions for equity investors is the extent to which it is wise to expect share valuations to hold up at their current extended levels. Our suspicion is that there could be a gentle de-rating although we believe that the earnings outlook should remain supportive for our holdings in the year ahead.

Peter Ewins
20 June 2017

'… on a 25 year view the Company's shares are up nearly 12 fold excluding dividend reinvestment, and almost 18 fold if the dividends paid out had all been reinvested as received.'

Thirty Largest Holdings

30 April 2017	30 April 2016		% of total investments	Value £m
1	1	**Eastspring Investments Japan Smaller Companies Fund** *Japan* Fund providing exposure to Japanese smaller companies.	4.6	35.1
2	2	**Aberdeen Global-Japanese Smaller Companies Fund** *Japan* Fund providing exposure to Japanese smaller companies.	3.9	29.3
3	3	**The Scottish Oriental Smaller Companies Trust** *Rest of World* Investment trust providing exposure to Asian smaller companies.	3.0	22.9
4	–	**Pinebridge Asia ex Japan Small Cap Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	2.0	15.3
5	6	**Utilico Emerging Markets** *Rest of World* Investment trust focusing on utility and infrastructure companies in emerging markets.	1.6	12.2
6	–	**HSBC GIF Asia ex Japan Equity Smaller Companies Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	1.4	10.8
7	5	**Aberdeen Global-Asian Smaller Companies Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	1.3	9.8
8	4	**Manulife Global Fund – Asian Smaller Cap Equity Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	1.3	9.4
9	7	**Alleghany** *United States* Specialist commercial insurer.	1.2	9.2
10	18	**Franklin Financial Network, Inc** *United States* Tennessee based bank that makes real estate based loans.	1.1	8.6
11	13	**State Bank Financial** *United States* Atlanta based bank.	1.1	8.4
12	25	**STERIS** *United States* Global supplier of surgical and sterilisation products and services.	1.0	7.6
13	11	**Martin Marietta Materials** *United States* Aggregates and cement producer that serves the construction industry.	1.0	7.6
14	–	**Waste Connections** *Canada* North American provider of waste collection and disposal services.	1.0	7.5
15	–	**Total System Services** *United States* Global payment solutions provider.	1.0	7.5
16	15	**Sabre** *United States* Travel network and technology company serving the airline and hospitality sectors.	0.9	7.0
17	54	**Leucadia National** *United States* Diversified holding company with exposure to the financial services, food and extractive industries.	0.9	6.9
18	8	**LKQ Corp** *United States* A distributor of alternative car parts.	0.9	6.9

30 April 2017	30 April 2016		% of total investments	Value £m
19	–	**Amdocs** *United States* Outsourced IT services provider to telecommunications sector.	0.9	6.8
20	9	**Sterling Bancorp** *United States* New York based commercial lender.	0.9	6.8
21	17	**Roper Technologies** *United States* An operator of niche industrial business.	0.9	6.6
22	47	**Vail Resorts** *United States* Operator of luxury ski resorts in the US and Australia.	0.9	6.5
23	52	**CSRA** *United States* IT services provider to US government agencies.	0.8	6.2
24	27	**ProAssurance** *United States* Insurer that specialises in medical professional liability insurance.	0.8	6.2
25	21	**VWR** *United States* Global distributor of laboratory products to pharmaceutical, industrial and academic markets.	0.8	6.1
26	24	**American Vanguard** *United States* Producer of chemicals for crop protection.	0.8	5.7
27	35	**ClubCorp Holdings** *United States* Owner and operator of golf and country clubs.	0.7	5.6
28	31	**Catchmark Timber Trust** *United States* REIT that owns timberlands in southern states in the US.	0.7	5.6
29	36	**Brown & Brown** *United States* Insurance broker to SMEs.	0.7	5.6
30	12	**CLS Holdings** *United Kingdom* Property investment company mainly operating in the UK, France, Germany and Sweden.	0.7	5.6

The value of the thirty largest equity holdings represents 38.8% (30 April 2016: 37.5%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2017 Value £'000s
EUROPE		
DENMARK		
Christian Hansen	36,919	1,925
Ringkjoebing Landbobank	14,176	2,638
Total Denmark		4,563
FINLAND		
Amer Sports	163,267	2,795
FRANCE		
Lectra	116,835	2,320
Plastic Omnium	53,580	1,619
Total France		3,939
GERMANY		
Aareal Bank	82,034	2,551
CTS Eventim	110,024	3,274
Gerresheimer	62,945	3,819
NORMA Group	66,585	2,760
Rational	3,065	1,184
SAF Holland	182,441	2,430
Symrise	23,419	1,269
Takkt	146,448	2,680
Total Germany		19,967
IRELAND		
Glanbia	164,746	2,485
IFG Group	1,054,573	1,465
Irish Continental Group	716,565	3,162
Origin Enterprises	585,095	3,662
Total Ireland		10,774
ITALY		
Azimut Holding	94,953	1,431
Cerved Information Solutions	443,040	3,649
Industria Macchine Automatiche	36,238	2,463
Interpump	109,133	2,232
Marr	78,760	1,464
Total Italy		11,239
NETHERLANDS		
ASM International	76,693	3,565
IMCD	66,199	2,753
Total Netherlands		6,318
NORWAY		
Sparebank	505,548	3,090
Storebrand	564,605	2,883
Tomra Systems	217,516	1,958
Total Norway		7,931
PORTUGAL		
CTT Correios de Portugal	468,665	2,066
SPAIN		
Atresmedia	133,418	1,294
Bolsas Y Mercados	46,403	1,285
Mediaset España	201,115	2,141
Vidrala	32,450	1,463
Viscofan	59,048	2,730
Total Spain		8,913
SWEDEN		
Dometic Group	376,148	2,162
Indutrade	171,729	3,124
Inwido	278,140	3,083
Total Sweden		8,369
SWITZERLAND		
Forbo Holdings	2,906	3,676
Komax	6,210	1,280
Metall Zug	579	1,759
Total Switzerland		6,715
TOTAL EUROPE		93,589

Quoted investments	Holding	30 April 2017 Value £'000s
REST OF WORLD		
Aberdeen Global-Asian Smaller Companies Fund	289,457	9,786
HSBC GIF Asia ex Japan Equity Smaller Companies Fund	1,247,000	10,816
Manulife Global Fund – Asian Smaller Cap Equity Fund	8,276,695	9,428
Pinebridge Asia ex Japan Small Cap Fund	33,631	15,353
The Scottish Oriental Smaller Companies Trust	2,293,999	22,940
Utilico Emerging Markets	5,642,096	12,201
TOTAL REST OF WORLD		80,524
JAPAN		
Aberdeen Global-Japanese Smaller Companies Fund	3,140,940	29,256
Eastspring Investments Japan Smaller Companies Fund	2,434,547	35,128
TOTAL JAPAN		64,384
UNITED KINGDOM		
4Imprint Group	144,285	2,570
Acal	724,353	1,816
AFH Financial Group	1,331,435	2,450
Aldermore	1,009,818	2,608
Anglo Pacific Group	1,279,706	1,491
Anpario	547,679	1,725
Arrow Global Group	859,687	3,149
Ascential	581,483	2,046
Avon Rubber	162,558	1,700
Biffa	1,094,226	2,063
Bodycote	504,502	4,205
Cairn Energy	1,261,065	2,450
Carclo	580,190	844
Clinigen	431,988	3,776
Clipper Logistics	794,314	3,058
CLS Holdings	290,087	5,584
Computacenter	313,028	2,565
Countryside Properties	887,403	2,387

Quoted investments	Holding	30 April 2017 Value £'000s
Craneware	350,002	4,130
Crest Nicholson	380,100	2,292
Dairy Crest Group	303,549	1,741
Dalata Hotel Group	508,006	2,080
De La Rue	286,759	1,959
Dechra Pharmaceuticals	279,148	4,709
Draper Esprit	445,000	1,544
Ebiquity	1,466,179	1,657
Eco Animal Health Group	292,786	1,420
Elementis	480,483	1,462
Entertainment One	766,069	1,888
Faroe Petroleum	2,914,011	2,746
Fevertree Drinks	136,691	2,223
Fuller Smith & Turner	194,925	1,975
Genus	161,227	2,765
Go Ahead Group	86,384	1,512
Hill & Smith	220,424	2,925
Hochschild Mining	551,553	1,401
Hollywood Bowl Group	1,259,317	2,087
Huntsworth	4,459,141	2,107
James Fisher and Sons	200,014	3,212
John Laing Group	1,399,638	4,025
Keller Group	213,498	1,976
Kier Group	161,538	2,158
Laird	1,681,444	2,522
Luceco	1,226,050	2,992
Mcbride	1,446,327	2,788
McKay Securities	1,189,175	2,735
Mears Group	644,192	3,350
Morses Club	1,320,176	1,743
Next Fifteen Communications	631,144	2,575
On the Beach Group	586,031	1,934
Orchard Funding Group	1,672,874	1,464
Photo-Me International	897,328	1,555
Plastics Capital	1,306,035	1,593

Quoted investments	Holding	30 April 2017 Value £'000s
Polypipe	572,440	2,279
Premier Asset Management	1,661,486	2,326
PureCircle	512,362	1,678
Rank Group	1,001,422	2,119
Restore	1,021,892	4,353
Revolution Bars Group	1,170,325	2,563
RPS Group	796,796	2,022
Sanne Group	570,183	3,715
SDX Energy	2,849,808	1,810
Senior Group	1,459,160	3,128
Sirius Real Estate	8,973,559	4,756
Softcat	476,932	1,963
Sophos Group	829,584	2,806
St. Modwen Properties	1,088,633	3,979
Synthomer	413,855	2,045
Tarsus Group	936,781	2,717
Ted Baker	69,024	1,929
The Gym Group	949,125	1,730
TLA Worldwide	5,649,757	1,525
Treatt	1,154,864	4,539
Trifast	1,602,048	3,504
Tyman	1,165,194	3,836
U And I Group	1,717,802	3,242
Ultra Electronics Holdings	106,011	2,218
Vectura Group	854,638	1,206
Vertu Motors	4,679,940	2,246
Vesuvius	415,000	2,200
Victoria	488,615	2,370
Wilmington	698,138	1,662
XP Power	124,152	3,281
Zotefoams	584,127	1,682
TOTAL UNITED KINGDOM		209,161

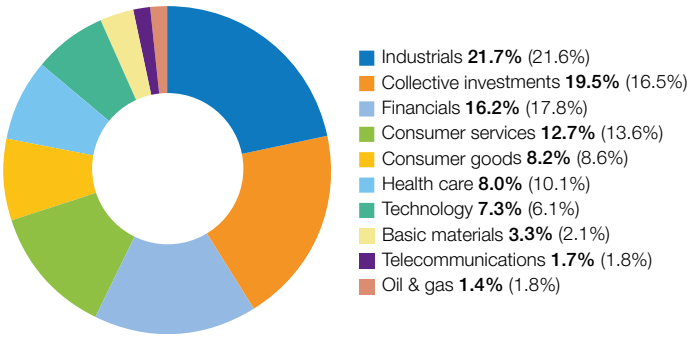
Quoted investments	Holding	30 April 2017 Value £'000s
NORTH AMERICA		
CANADA		
Waste Connections	106,270	7,539
UNITED STATES		
Alleghany	19,476	9,182
Amdocs	143,863	6,808
America's Car-Mart	106,273	3,064
American Vanguard	440,924	5,692
Astec Industries	59,829	2,929
ATN International	83,499	4,460
Big Lots	112,084	4,373
Biodelivery Sciences International	556,931	775
Brown & Brown	168,488	5,584
C.H. Robinson Worldwide	83,599	4,698
Carriage Services	208,765	4,412
Carrizo Oil & Gas	196,308	3,815
Catchmark Timber Trust	619,290	5,601
CDW	121,960	5,569
Cinemark Holdings	136,866	4,569
ClubCorp Holdings	539,324	5,607
CommVault Systems	126,064	4,916
Covanta Holding	425,996	4,774
CSRA	277,870	6,244
Cubic	127,606	5,114
Franklin Financial Network	275,084	8,601
Generac Holdings	116,623	3,170
Genesee & Wyoming	81,791	4,283
Gopro	349,244	2,227
Granite Construction	129,751	5,278
Graphic Packaging	461,659	4,846
GTT Communications	160,524	3,406
Hallmark Financial Services	548,910	4,455
HealthSouth	121,302	4,393
ICF International	120,572	4,115
ICON	75,999	4,963

Quoted investments	Holding	30 April 2017 Value £'000s
Leucadia National	353,781	6,940
Lincoln Electric	23,120	1,590
LKQ Corp	285,212	6,885
Magellan Health	60,322	3,208
Martin Marietta Materials	44,492	7,573
Microsemi	115,314	4,183
Molina Healthcare	123,735	4,760
Murphy USA	84,463	4,541
Nuance Communications	383,678	5,306
Performance Food Group	276,955	5,320
ProAssurance	129,176	6,175
Roper Technologies	38,952	6,585
Sabre	387,652	7,011
Safeguard Scientifics	427,720	4,199
State Bank Financial	402,750	8,359
STERIS	133,918	7,638
Sterling Bancorp	376,685	6,769
The Andersons	161,852	4,666
The Ensign Group	330,915	4,589
The Michaels Cos	197,628	3,567
Total System Services	168,659	7,472
United Bankshares	178,883	5,510
Upland Software	139,565	2,145
Vail Resorts	42,562	6,502
VWR	277,976	6,072
W.R. Berkley	80,344	4,220
WellCare Health Plans	29,440	3,490
WEX	52,759	4,138
Zayo Group Holdings	186,291	5,050
Total United States		302,386
TOTAL NORTH AMERICA		309,925
TOTAL QUOTED INVESTMENTS		**757,583**

Unquoted investments	Holding	30 April 2017 Value £'000s
REST OF WORLD		
Aberdeen Frontier Markets Investment Company – Tender Pool	5,602,624	412
Australian New Horizons Fund	2,476,610	3,274
TOTAL UNQUOTED INVESTMENTS		**3,686**
TOTAL INVESTMENTS		**761,269**

The number of investments in the portfolio is 194 (2016: 194).

Industrial classification of the investment portfolio as at 30 April 2017



The percentages in brackets are as at 30 April 2016
Source: F&C

'Our investment portfolio is broadly spread and not focused on any one particular sector'

Principal Risks and Future Prospects

Each year the Board carries out a comprehensive, robust assessment of the principal risks and uncertainties that could threaten the Company's ongoing operations and achievement of its objective. The consequences for its business model, liquidity, future prospects and viability form an integral part of this assessment.

The principal risks, both perceived and observed, together with their mitigations are set out in the table below. The Board's processes for monitoring them are set out on pages 46 and 47 and in note 26 on the accounts. The risks that affect the Company's ongoing operations as well as the threats to security over the Company's assets may vary in significance from time to time. These principal risks are unchanged from those reported last year.

The principal risks identified as most relevant to the assessment of the Company's future prospects and viability were those relating to inappropriate business strategy, potential investment portfolio under-performance and its effect on share price discount/premium and dividends, as well as threats to security over the Company's assets. Through a series of connected stress tests over the five years commencing 1 May 2017, the Board assessed the risks of:

Principal Risks	Mitigation
Security and operational issues Errors, fraud or control failures at service providers or loss of data through business continuity failure or cyber attacks could damage reputation or investors' interests or result in loss. Recent high profile cyber incidents, affecting institutions globally, indicate an increasing risk of attack. **Increased in the year under review**	The Board receives regular control reports from the Manager covering risk and compliance and IT security, including oversight of the Custodian and other third party service providers. The Board has access to F&C's Head of Business Risk and BMO's Group Information Security Officer, International and requires any significant issues directly relevant to the Company to be reported immediately. The Depositary is specifically liable for loss of any of the Company's securities and cash held in custody.
Investment Performance An inappropriate business strategy or policy, or ineffective implementation, could result in poor returns for shareholders. **Unchanged throughout the year under review.**	The Board regularly reviews overall strategy and in considering investment policy reviews reports from the Manager at each Board meeting. The effectiveness of the marketing strategy is also reviewed regularly. The Manager structures its recruitment and remuneration packages in order to retain and enhance the quality of the management team. The Manager's appointment can be terminated at six months' notice.
Discount/premium to NAV A significant share price discount or premium to the Company's diluted NAV per share, or related volatility, could lead to high levels of uncertainty or speculation and the potential to reduce investor confidence. **Unchanged throughout the year under review.**	The Board has established share buyback and share issue policies, together with a dividend policy, in order to moderate the level of share price discount or premium to the diluted NAV per share and related volatility and seeks shareholder approval each year for the necessary powers to implement these policies.

- Potential illiquidity of the Company's portfolio
- The effects of any substantial future falls in investment values and income receipts on the ability to repay the CULS and potential breach of CULS covenants
- Significant falls in income on the ability to continue paying steadily-rising dividends and maintaining adequate reserves and the retention of investors

The Board also took into consideration the perceived viability of its principal service providers, potential effects of anticipated regulatory changes and the potential threat from competition. The Board's conclusions are set out under the Five Year Horizon opposite.

Actions taken on Principal Risks in the year
The Audit and Management Engagement Committee has agreed to implement, in 2017, a new risk management framework, as provided by the Manager which aligns with its parent company, BMO. The framework is designed to enhance controls over and monitoring of the Company's risk management process. Satisfactory supervision of third party service providers was maintained throughout the year by F&C and included assurances over IT security and cyber threats. The Depositary reported to the Board quarterly on its oversight of custody of investments and cash and raised no matters of concern for the Company.
The Board has reviewed F&C's controls and risk management structure as part of its annual assessment. The Company's CULS debt was reduced in the year as a consequence of conversion of 4,205,641 CULS into ordinary shares (see note 14 on the Accounts). Gearing provided by the CULS contributed positively to performance in the year, as described in the Chairman's Statement. The Lead Manager's review on pages 11 to 20 explains the changes to the portfolio in the year.
The Company's share price traded at a premium to diluted NAV for most of the year. Shares were issued regularly at a moderate premium to diluted NAV to satisfy demand from investors. Marketing campaigns throughout the year included advertising across financial and price comparison websites of the various investment wrapper products through which the Company's shares can be bought. The Board has proposed an above inflation increase in the full year dividend.

Five Year Horizon

Based on its assessment and evaluation of the Company's future prospects, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the coming five years. This period is consistent with advice, provided by many investment advisers, that investors should invest in equities for a minimum of five years. The Company's business model, strategy and the embedded characteristics listed below have helped define and maintain the stability of the Company over many decades. The Board expects this to continue over the next five years and many more to come.

- The Company has a long-term investment strategy under which it invests mainly in readily realisable, publicly listed securities and which restricts the level of borrowings.
- The Company's business model and strategy are not time limited and, as a global investment trust, are unlikely to be materially adversely impacted as a direct result of the Brexit Referendum.
- The Company is inherently structured for long-term outperformance, rather than short-term opportunities, with five years as a sensible time-frame for measuring and assessing long-term investment performance.
- The Company is able to take advantage of its closed-end investment trust structure.
- The Company has the ability to use short-term borrowings by way of loans and overdrafts.
- Regular and robust review of revenue and expenditure forecasts is undertaken throughout the year against a backdrop of large revenue and capital reserves.
- The Company retains title to all assets held by the Custodian which are subject to further safeguards imposed on the Depositary.

On behalf of the Board
Anthony Townsend
Chairman
20 June 2017

'The Directors consider that, following advice from the Audit & Management Engagement Committee, the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.'

Directors

Anthony Townsend, **Chairman**, was appointed to the Board on 24 September 2004 and is chairman of the Nomination Committee. He has spent over 45 years working in the City of London and was chairman of the Association of Investment Companies from 2001 to 2003. He is chairman of Baronsmead Second Venture Trust PLC, British & American Investment Trust PLC, Finsbury Growth & Income Trust PLC, Gresham House PLC and Miton Global Opportunities PLC. **Shared directorships with other Directors: None**

Andrew Adcock was appointed to the Board on 31 July 2007. He was, until mid-2009, vice chairman of Citigroup Corporate Finance and managing partner of Brompton Asset Management Limited until July 2011. He has more than 30 years' experience in the City of London and is chairman of Majedie Investments PLC, VPC Specialty Lending Investments PLC, JPMorgan European Investment Trust PLC and Panmure Gordon & Co Ltd. He is also a non-executive director of Foxtons Group PLC. **Shared directorships with other Directors: JPMorgan European Investment Trust plc with Jo Dixon**

Anja Balfour was appointed to the Board on 1 June 2015. She is a non-executive director of Schroder Japan Growth Fund PLC and Martin Currie Asia Unconstrained Trust and a trustee of Venture Scotland, a charity specialising in personal development for young people. Previously she spent over 20 years as a fund manager, running Japanese and International Equity portfolios for Stewart Ivory, Baillie Gifford and latterly, Axa Framlington. **Shared directorships with other Directors: None**

Josephine (Jo) Dixon, Chairman of the Audit and Management Engagement Committee, was appointed to the Board on 11 February 2015. She is a non-executive director and chair of the audit committees of Strategic Equity Capital PLC, JPMorgan European Investment Trust PLC, Standard Life Equity Income Trust PLC and BB Healthcare Trust PLC. She is also a non-executive director of Ventus VCT PLC. **Shared directorships with other Directors: JPMorgan European Investment Trust plc with Andrew Adcock**

David Stileman was appointed to the Board on 1 June 2015. He is an operating partner of Corsair Capital LLP, a member of the Advisory Boards of FTV Capital LLP and BizEquity LLC and a senior advisor at CamberView Partners LLP. Having been with Standard Chartered Bank since 1984, he retired as Chairman Americas in late 2012. He is now a consultant to Standard Chartered Bank. He is also chairman of The Garden Bridge Trading Company Ltd and an executive director of Stileman Consulting Limited and he became Trustee Emeritus of the Royal Academy of Arts in 2016. **Shared directorships with other Directors: None**

Jane Tozer, **Senior Independent Director**, was appointed to the Board on 13 June 2005. She is a non-executive director and senior independent director of StatPro PLC and a non-executive director of Asthma UK, Nominet UK and Citizens Advice in Three Rivers Ltd. She is also a member of the Warwick Business School Advisory Board. She previously worked at IBM and then as CEO of a software development company. **Shared directorships with other Directors: None**

All Directors are members of the Audit and Management Engagement Committee and the Nomination Committee.

Directors' Report

The Directors submit the Report and Accounts of the Company for the year ended 30 April 2017. The Corporate Governance Statement, the Remuneration Report and the Report of the Audit and Management Engagement Committee all form part of this Directors' Report.

Statement regarding Report and Accounts

The Directors consider that, following advice from the Audit and Management Engagement Committee, the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit and Management Engagement Committee has reviewed the draft Report and Accounts for the purposes of this assessment. The outlook for the Company can be found on pages 7 and 20. Principal risks can be found on page 28 with further information on financial risks in note 26 on the accounts. There are no instances where the Company is required to make disclosures in respect of Listing Rule 9.8.4R, other than in respect of Listing Rule 9.8.4(7)R concerning the allotment of shares. This disclosure is on pages 35 and 36.

Results and dividends

The results for the year are set out in the attached accounts. The recommended final dividend of 8.25 pence per share is payable on 11 August 2017 to shareholders on the register of members on 14 July 2017 subject to approval at the Annual General Meeting (Resolution 4). This, together with the interim dividend of 4.00 pence per share, makes a total dividend of 12.25 pence per share and represents an increase of 14.5% over the comparable 10.70 pence per share paid in respect of the previous year.

Company status

The Company is registered as a public limited company in terms of the Companies Act 2006 (the "**Act**") and is an investment company as defined by Section 833 of the Act. The Company is registered in England and Wales with company registration number 28264 and is subject to the UK Listing Authority's Listing Rules, UK and European legislation and regulations including company law, financial reporting standards, taxation law and its own Articles of Association.

Taxation

As set out in note 8 on the Accounts, the Company is exempt from UK Corporation Tax on its worldwide dividend income and from UK Corporation Tax on any capital gains arising from the portfolio of investments, provided it complies at all times with section 1158 of the Corporation Tax Act 2010 ("**section 1158**"). Dividends received from investee companies domiciled outside the UK are subject to taxation in those countries in accordance with relevant double taxation treaties.

The Company has received approval from HMRC as an investment trust under section 1158 and has since continued to comply with the eligibility conditions and ongoing requirements of that section.

The Company's taxation policy is: to comply at all times with section 1158, such that it does not suffer UK taxation on capital gains; to ensure that it submits correct taxation returns annually to HMRC and settles promptly any taxation due;

and to ensure that it claims back in a timely manner, where possible, all taxes suffered in excess of taxation treaty rates on non-UK dividend receipts.

Accounting and going concern

The Financial Statements, starting on page 57, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified independent auditors' opinion on the Financial Statements appears on page 51. The Company's investment policy statement, as set out on page 9, places the emphasis on investing in readily realisable listed securities and puts a limit on borrowings. The Company retains title to all assets held by the Custodian. A trust deed governs the CULS. Cash is held on deposit only with banks approved and regularly reviewed by F&C. Shareholders will be asked to approve the adoption of the Report and Accounts at the Annual General Meeting (Resolution 1).

As discussed in note 24 on the Accounts, the Directors believe that, in light of the controls and monitoring processes that are in place, the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. Accordingly, it is reasonable for the financial statements to continue to be prepared on a going concern basis. The Company's longer term viability is considered in the "Five Year Horizon" Statement on page 29.

Statement as to disclosure of information to the auditors

Each of the Directors confirms that, to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which PricewaterhouseCoopers LLP ("**PwC**" or the "**auditors**") is unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that PwC is aware of that information.

Reappointment of auditors

PwC have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their reappointment and authorising the Audit and Management Engagement Committee to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting (Resolutions 11 and 12). Further information in relation to the reappointment can be found on page 48.

'The Company's shareholdings are voted at all listed company meetings worldwide where practicable'

Voting Policy on portfolio investments

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all listed company meetings worldwide where practicable in accordance with F&C's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. In the year under review, F&C had engaged with a number of companies held in the portfolio and had voted at 195 company meetings on a range of issues. Key themes included the risks associated with corporate culture and business ethics, the alignment of pay with business strategy and risk, the appropriateness of governance structure and effective carbon management.

F&C's statement of compliance with The UK Stewardship Code has been reviewed and endorsed by the Board, which encourages and supports F&C on its voting policy and its stance towards environmental, social and governance issues. The statement is available on F&C's website at www.bmogam.com/corporate/about-us/responsible/.

Greenhouse gas emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not directly generate any greenhouse gas or other emissions.

Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company is not required to make any statement under the Modern Slavery Act 2015.

Capital structure

The Company's issued share capital at 30 April 2017 consisted of 57,135,074 ordinary shares of 25p each ("**ordinary shares**"), with voting rights and £35.6 million nominal of CULS. The CULS are listed on the London Stock Exchange and are tradeable. As at 14 June 2017 (being the latest practicable date before publication of this report) the number of ordinary shares in issue was 57,417,074.

All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 16 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares. Full details are set out in the Company's Articles of Association.

On 9 August 2016, 49,806 units of CULS were converted into 5,094 ordinary shares and on 10 February 2017, 4,155,835 units of CULS were converted into 425,052 ordinary shares. In accordance with the terms of the CULS issue, the conversion price of the CULS was determined at 977.6970 pence per £1 nominal of CULS for one ordinary share. CULS holders are entitled to convert their CULS, in whole or in part, into ordinary shares on each 31 January and 31 July until 31 July 2019. On a winding-up of the Company, the nominal amount of the CULS would rank ahead of the ordinary shares but would be subordinated to the Company's other borrowings and creditors. Therefore, the rights and remedies available to the CULS Trustee and CULS holders may be limited by applicable winding-up, insolvency, re-organisation, moratorium or similar provisions relating to or affecting creditors' rights generally.

Issue and buyback of shares

The Board closely monitors the prevailing share price premium or discount to the diluted NAV per share. The Board's policy is for the Company to issue shares at a premium to the diluted NAV per share helping to prevent an excessive build-up of demand for the shares and to reduce premium volatility. Such issues are only made when the Company's shares are trading at a premium and they are therefore accretive to the NAV. At the Annual General Meeting held on 28 July 2016, shareholders gave the Board authority to issue up to 10% of the Company's shares (5,555,000 shares) until the next Annual General Meeting in July 2017 and the power to allot such shares for cash without first offering them to existing shareholders in proportion to their holdings.

During the year, the Company issued shares on 40 separate occasions. A total of 1,293,725 ordinary shares with a nominal value of £323,000 were issued at an average price of 1,192.05 pence per share for a total consideration of £15,422,000 before the deduction of issue costs. 430,146 new ordinary shares were also issued as a result of two CULS conversions during the year. A further 282,000 shares have been allotted since the year end, up to 14 June 2017.

Details of the allottees are set out in the following table:

Allottee	Number of issues	Number of shares issued	Price range (pence)	Total consideration £'000s
Stifel Nicolaus Europe Limited	22	837,725	998.5 to 1282.5	9,784
Winterflood Securities Limited	1	50,000	1279.5	639
Numis	17	406,000	1128.8 to 1277.0	4,999
Holders of CULS	2	430,146	977.6970	–

Subject to annual shareholder approval, the Company may also purchase its own shares when trading at a discount to diluted NAV per share; the Board aims to keep the discount (with the diluted NAV per share excluding current period income) at no more than 5% in normal market conditions. The shares can either be cancelled or held in treasury to be sold as and when they return to a premium or to a narrower discount than the weighted average discount at which they had been bought back and in any event at no more than a 5% discount to the prevailing diluted NAV per share. At the Annual General Meeting held on 28 July 2016 shareholders gave the Board authority to buy back up to 14.99% of the Company's shares (8,327,000 shares) during the following 15 months. No shares have been purchased either during the year under review or since the year end and to the date of this report. No shares are held in treasury.

Voting rights and proportional voting

At 14 June 2017 the Company's 57,417,074 ordinary shares in issue represented a total of 57,417,074 voting rights. As at 30 April 2017 and since that date no notifications of significant voting rights have been received under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Ordinary shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. Each ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every ordinary share held. CULS holders have the right to receive notice of, but not to attend, annual general meetings of the Company.

CULS holders have the power by Extraordinary Resolution to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against the Company and to assent to any modification of the provisions of the Trust Deed.

Approximately 53% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. For those planholders who do not return their voting directions, the nominee company will vote these shares in proportion to the directions of those who do ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 75,000 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

At the year end, the Company had £35.6 million nominal of 3.5% CULS in issue. The net gearing was 3.4%.

The interest rate on the CULS is 3.5% per annum, payable semi-annually in equal instalments in arrears on 31 January and 31 July in each year until 31 July 2019. In accordance with the terms of the CULS issue, the conversion price was determined at 977.6970 pence per £1 nominal of CULS for one ordinary share, which represented a 15% premium to the published unaudited NAV (cum income) per ordinary share of 850.1713 pence at close of business on 30 July 2014. Any CULS not previously redeemed, purchased or converted will be repaid by the Company on 31 July 2019 at its nominal amount together with interest accrued up to but excluding the date of redemption. The Company has no bank borrowing. It has the ability to use short-term borrowings by way of loans and overdrafts, subject to the limit set out on page 9 in the Company's investment policy statement. An overdraft facility is made available to the Company by the Custodian for settlement of investment trades. The CULS Trust Deed does not place any restriction on borrowing.

Directors' Remuneration Report

The Directors' Remuneration Report, which can be found on pages 43 and 44 provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Policy at the forthcoming Annual General Meeting, which has no material changes to that last approved by shareholders in 2016. Remuneration is set at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve

the investment objective. It is intended that this policy will continue until the Company's next Annual General Meeting in 2018. Shareholders will also be asked to approve the Remuneration Report (Resolutions 2 and 3).

Directors' re-elections

The names of the Directors of the Company, along with their biographical details, are set out on page 32 and are incorporated into this report by reference. All the Directors held office throughout the year under review. Notwithstanding the Company's Articles of Association, all Directors will stand for re-election by shareholders at the forthcoming Annual General Meeting. (Resolutions 5 to 10). There are currently three directors with service of more than nine years: Anthony Townsend (the Chairman), Andrew Adcock and Jane Tozer.

The Nomination Committee has considered each Director and the Board has concurred with the Nomination Committee's assessment that each Director is independent of character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. Each Director continues to make a valuable and effective contribution and remains committed in the role.

Directors' interests and indemnification

There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The Company has granted a deed of indemnity to the Directors in respect of liabilities that may attach to them in their capacity as Directors of the Company. This covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. This deed of indemnity is a qualifying third-party provision (as defined by section 234 of the Companies Act 2006) and has been in force throughout the period under review and remains in place as at the date of this report. It is available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company also maintains directors' and officers' liability insurance.

Safe custody of assets

The Company's listed investments are held in safe custody by JPMorgan Chase Bank (the "**Custodian**"). Operational matters with the Custodian are carried out on the Company's behalf by the Manager via F&C in accordance with the provisions of the investment management agreement. The Custodian is paid a variable fee dependent on the number of trades transacted and location of the securities held. The investment in Australian New Horizons Fund is not held by the Custodian but the Board has satisfied itself that adequate custodial arrangements exist.

Depositary

JPMorgan Europe Limited (the "**Depositary**") acts as the Company's Depositary in accordance with the Alternative Investment Fund Manager's Directive ("**AIFMD**"). The Depositary's responsibilities, which are set out in an Investor Disclosure Document on the Company's website, include: cash monitoring; ensuring the proper segregation and safe keeping of the Company's financial instruments that are held by the Custodian; and monitoring the Company's compliance with investment and leverage limits requirements. The Depositary receives for its services a fee of one basis point per annum, based on the Company's net assets, payable monthly in arrears.

Although the Depositary has delegated the safekeeping of all assets held within the Company's investment portfolio to the Custodian, in the event of loss of those assets that constitute financial instruments under the AIFMD, the Depositary will be obliged to return to the Company financial instruments of an identical type, or the corresponding amount of money, unless it can demonstrate that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

The Manager's fee

Since 1 May 2016 the Manager earns a management fee of 0.55% per annum of the net assets managed by F&C and a reduced management fee of 0.275% of the market value of investments in third party collective funds. The fee is calculated and paid monthly. Performance fees are no longer paid to the Manager. The fee received was £3,262,000 (2016: £1,993,000 plus a performance fee of £1,314,000). Notes 4 and 5 on the accounts provide detailed information in relation to the management fee and includes an explanation of the management fee arrangement prior to 1 May 2016.

Manager evaluation process

F&C's performance is considered by the Board at every meeting with a formal evaluation by the Audit and Management Engagement Committee in June each year. In evaluating their performance, the Board considers a range of factors including the

investment performance of the portfolio as a whole, performance of the various regional sub-portfolios and the skills, experience and depth of the team involved in managing the Company's assets. The Board measures the overall relative success of the Company against the Benchmark, with each regional sub-portfolio being measured against relevant local small capitalisation indices. It also considers the resources and commitment of the Manager in all areas of its responsibility, including the marketing and administrative services provided to the Company.

Manager reappointment

The annual evaluation of the Manager by the Audit and Management Engagement Committee took place in June 2017 with a presentation from the Lead Manager and F&C's Head of Investment Trusts. This focused primarily on investment performance and the services provided to the Company more generally.

The Audit and Management Engagement Committee met in closed session following the presentation and, in light of the long-term investment performance of the Manager and the quality of the overall service provided, it concluded in its opinion that the continuing appointment of F&C Investment Business Limited ("**FCIB**") as Manager on the terms agreed is in the interests of shareholders as a whole. The Board ratified this recommendation.

Annual General Meeting

The Annual General Meeting will be held on Thursday 27 July 2017 at 12 noon at Pewterers Hall, Oat Lane, London EC2V 7DE. The Notice of Annual General Meeting appears on pages 80 to 83, including a map of the venue. The Lead Manager will give a presentation and there will be an opportunity to ask questions. Shareholders will be able to meet the Directors and the Lead Manager informally over refreshments afterwards.

Authority to allot shares and sell shares from treasury (Resolutions 13, 14 and 16)

By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash or selling shares out of treasury without first offering them to existing shareholders in proportion to their holdings.

Resolutions 13, 14 and 16 are similar in content to the authorities and power given to the Directors at previous annual general meetings.

Resolution 13 gives the Directors the necessary authority to allot securities up to an aggregate nominal amount of £1,435,250 (5,741,000 ordinary shares), being equivalent to approximately 10% of the Company's current issued share capital (calculated exclusive of any treasury shares being held by the Company) as at 14 June 2017, being the latest practicable date before the publication of the Notice of Annual General Meeting. The authority and power expires at the conclusion of the Annual General Meeting in 2018 or, if earlier, 15 months from the passing of the resolution.

Resolution 14 empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro-rata basis and also to sell treasury shares without first offering them to existing shareholders in proportion to their holdings up to an aggregate nominal amount also of £1,435,250 (representing approximately 10% of the issued ordinary share capital of the Company at 14 June 2017). Resolution 16 specifically authorises the Directors to sell treasury shares if the price is at a narrower discount than the weighted average discount at which the shares had been bought back and in any event at no more than a 5% discount to the prevailing net asset value per share. Resolution 16 does not preclude the Directors selling treasury shares at a premium. As at 14 June 2017 no shares were held by the Company in treasury.

These authorities and powers provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares or the sale of treasury shares, in accordance with the policies set out on page 9 or should any other favourable opportunities arise to the advantage of shareholders.

The Directors anticipate that they will mainly use them to satisfy demand from participants in the F&C savings plans when they believe it is advantageous to such participants and the Company's shareholders to do so. Under no circumstances would the Directors use them to issue new shares unless the shares were trading at a premium to NAV.

Authority for the Company to purchase its own shares (Resolution 15)

Resolution 15 authorises the Company to purchase up to a maximum of 8,606,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital) in the market at a minimum price of 25 pence per share and a maximum price per share (exclusive of expenses) of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before

the date of purchase, reflecting requirements of the Companies Act 2006 and the Listing Rules.

In the event that the Company's shares return to a discount, the Directors intend to use this authority with the objective of keeping the discount at no more than 5% in normal market conditions as well as enhancing the NAV per share for continuing shareholders. Any shares that are purchased will either be cancelled or placed into treasury. The authority will continue until the expiry of 15 months from the date of the passing of the resolution unless it is varied, revoked or renewed prior to that by the Company in general meeting by special resolution. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Notice period for meetings (Resolution 17)

The Act and the Company's Articles of Association provide that all general meetings (other than annual general meetings) can be convened on 14 days' notice. However, one of the requirements of the Shareholder Rights Directive is that all general meetings must be held on 21 clear days' notice, unless shareholders agree to a shorter notice period. The Board is of the view that it is in the Company's interests to have a shorter notice period which complies with the provisions of the Act and the Company's articles allow all general meetings (other than an annual general meeting) to be called on 14 clear days' notice. The passing of resolution 17 would constitute shareholders' agreement for the purposes of the Shareholder Rights Directive (which agreement is required annually) and would therefore preserve the Company's ability to call general meetings (other than an annual general meeting) on 14 clear days' notice. The Board would utilise this authority to provide flexibility when merited and would not use it as a matter of routine. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Authority to increase the maximum aggregate Directors' fees (Resolution 18)

The aggregate amount that can be paid by way of Directors' fees is authorised by the Company's Articles of Association. The current limit of £200,000 per annum was set in 2007 and, at current rates, the fees payable to the Company's six Directors over a year amount to £177,500. Although not currently planned, it is appropriate to have the flexibility to be able to make another appointment to the Board should the need arise. The Directors therefore consider it timely to seek authority from shareholders for an increase of the limit in the Articles of Association and propose, under Resolution 18, a maximum aggregate sum of £300,000 per annum. In accordance with the Board's normal practice, the level of Directors' fees payable is reviewed annually and, as explained on page 43, no further increases are planned at present.

VOTING

Form of proxy

If you are a registered shareholder you will find enclosed a form of proxy for use at the Annual General Meeting. You will also have the option of lodging your proxy vote using the internet. For shares held through CREST, proxy appointments may be submitted via the CREST proxy voting system. Please either complete, sign and return the form of proxy in the envelope provided as soon as possible in accordance with the instructions or, alternatively, lodge your proxy vote via the Internet or the CREST proxy voting system, whether or not you intend to be present at the Annual General Meeting. This will not preclude you from attending and voting in person if you wish to do so.

All proxy appointments should in any event be returned or lodged so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting.

Form of direction and proportional voting

If you are an investor in any of the F&C savings plans you will have received a form of direction for use at the Annual General Meeting and you will also have the option of lodging your voting directions using the Internet. The Manager operates a proportional voting arrangement, which is explained on page 36.

All voting directions should be submitted as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 12 noon on 20 July 2017, so that the nominee company can submit a form of proxy before the 48 hour period begins.

Voting recommendation

Your Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the shareholders as a whole. The Board therefore recommends that shareholders vote in favour of each resolution, as is the intention of the Directors in respect of their own beneficial holdings.

By order of the Board
F&C Investment Business Limited, Secretary
20 June 2017

Corporate Governance Statement

Introduction

The Company is committed to high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "**AIC Code**") by reference to the AIC Corporate Governance Guide for Investment Companies (the "**AIC Guide**"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "**UK Code**") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders.

Copies of both codes may be found on the respective websites: www.theaic.co.uk and www.frc.org.uk.

The Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report and thereby the provisions of the UK Code that are relevant to the Company, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, the Board considers these three provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions have been delegated to the Manager. As a result, the Company has no executive directors, employees or internal operations. Therefore, with the exception of the need for an internal audit function which is addressed on page 47, the Company has not reported further in respect of these provisions.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at general meetings of shareholders.

AIFMD

The Company is defined as an Alternative Investment Fund ("**AIF**") under the AIMFD issued by the European Parliament, which requires that all AIFs must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**"). The Board remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Manager is the Company's AIFM.

The Board

The Board's responsibilities are outlined on page 49. More specifically, the Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision. These are categorised under strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share issue and buyback policy and corporate governance matters which are all reviewed regularly.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Lead Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager. The Board has responsibility for the approval of unlisted investments.

The following table sets out the Directors' meeting attendance in the year under review. The Board held a separate meeting in March 2017 to consider strategic issues and also met in private session on one occasion during the year, without any representation from the Manager.

Directors' attendance			
	Board	Audit and Management Engagement Committee	Nomination Committee
No. of meetings	6	2	1
Anthony Townsend	6	2	1
Andrew Adcock	6	2	1
Anja Balfour	6	2	1
Jo Dixon*	5	2	1
David Stileman	6	2	1
Jane Tozer	6	2	1

* Absent for one meeting due to family bereavement

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the investment management agreement. The powers of the Board relating to the issuance or buying back of the Company's shares are explained on pages 9, 38 and 39.

Appointments, diversity and succession planning

Under the requirements of the Articles of Association of the Company, the number of Directors on the Board may be no more than twelve. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next annual general meeting and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. All Directors are required to stand for re-election at least every three years and those Directors serving more than six years are subject to a more rigorous review before being proposed for re-election. Notwithstanding the Articles, the Board has agreed that all Directors will stand for re-election by shareholders at the Annual General Meeting.

The final decision with regard to new appointments always rests with the Board. A professional search consultancy is appointed for the purpose of finding suitable candidates. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars.

The Board believes in the benefits of having a diverse range of experience, skills and backgrounds, including gender and length of service. There is 50% female representation on the Board. All appointments will continue to be made on merit and therefore the Board is unwilling to commit to numerical diversity targets.

Performance evaluation

In order to review the effectiveness of the Board, the Committees and the individual Directors, the Board carries out an annual appraisal process by way of a formal annual self-appraisal. This was facilitated by the completion of a questionnaire and confidential one-to-one interviews between the Chairman and each Director. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. The Board considers the appraisal process to be a constructive means of evaluating the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and its committees, including assessing any training needs. There were no significant actions arising from the evaluation process. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so is kept under review.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of his/her period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his/her place. The provisions under which a Director would automatically cease to be a Director are set out in the Company's Articles of Association.

Board independence and tenure

The Board is firmly of the view that length of service does not of itself impair a director's ability to act independently; rather, a director's longer perspective adds value to the deliberations of a well-balanced investment trust company board. The Board has a policy that only a minority of the Directors should generally have served for more than nine years. The main aim is to ensure that Board members have an appropriate mix of skills, with regular reviews undertaken to ensure that Directors

are independent in character and judgement. The Board considers all of the Directors to be independent of F&C and of the Company itself; none has a past or current connection with F&C, with no relationships or circumstances relating to the Company that are likely to affect that judgement. It is considered that Anthony Townsend (the Chairman), Andrew Adcock and Jane Tozer (Senior Independent Director) who have each served as a Director for over nine years, also continue to be independent in both character and judgement.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Directors. Limits can be imposed as appropriate.

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought. They are reviewed throughout the year at the commencement of each Board meeting and the Nomination Committee reviews the authorisation of each individual Director's conflicts or potential conflicts annually. In the year under review, the Nomination Committee concluded that in each case these situational conflicts had not affected any individual in his/her role as a Director of the Company.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Audit and Management Engagement Committee

The Board has established an Audit and Management Engagement Committee, the role and responsibilities of which are set out in its report on pages 45 to 48.

Nomination Committee

The role of the Nomination Committee is to review and make recommendations to the Board with regard to:

(i) Board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity;
(ii) succession planning and tenure policy;
(iii) the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction;
(iv) the appointment of new Directors and the reappointment of those Directors standing for re-election at annual general meetings;
(v) the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;
(vi) the question of each Director's independence prior to publication of the Report and Accounts; and
(vii) the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Companies Act 2006 and the policy and procedures established by the Board in relation to these provisions;

All of the Nomination Committee's responsibilities have been carried out during the period under review and to the date of this report.

The Nomination Committee's terms of reference are available on request and can also be found on the Company's website at www.fandcglobalsmallers.com The Nomination Committee is composed of the full Board and is chaired by Anthony Townsend. Attendance at meetings is listed on page 41.

Remuneration Committee

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a remuneration committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Remuneration Report on pages 43 and 44 and in note 6 on the accounts.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly fact sheets and general information are available on the Company's website at www.fandcglobalsmallers.com

A regular dialogue is maintained with the Company's institutional shareholders and with private client asset managers.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 88.

By order of the Board
F&C Investment Business Limited
Secretary
20 June 2017

Remuneration Report

Directors' Remuneration Policy

The Board's policy is to set Directors' remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. Time committed to the Company's business and the specific responsibilities of the Chairman, Senior Independent Director, Chairman of the Audit and Management Engagement Committee and the Directors and their retention are taken into account. The policy aims to be fair and reasonable in relation to comparable investment trusts and other similar sized financial companies. The Board has agreed to seek approval of this policy annually. It will therefore be put to shareholders for renewal at the forthcoming Annual General Meeting with the modification of the express provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings. This will include those treated as a benefit in kind subject to tax and national insurance. At the Company's last Annual General Meeting, shareholders approved the Directors' Remuneration Policy. 91.46% of votes were cast in favour of the resolution, 8.41% against and 0.13% withheld. The Board has not received any views from shareholders in respect of the levels of Directors' remuneration.

The Company's Articles of Association limit the aggregate Directors' fees payable to £200,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director. As explained on page 39, in accordance with Article 102 of the Company's Articles of Association, the Directors will be seeking shareholder approval to increase the permitted maximum aggregate of Directors' fees payable to £300,000 per annum at the forthcoming Annual General Meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options or long-term incentive schemes or other benefits. Towards the end of the year the Chairman carried out a review of fee rates in accordance with the policy. The Board agreed with his recommendation that no increases be made for the year commencing 1 May 2017.

The Board is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. Each new Director is provided with a letter of appointment. There is no provision for compensation upon early termination of appointment. The letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes before and throughout the forthcoming Annual General Meeting, at which all Directors will stand for re-election.

The fees for specific responsibilities are set out in the table below. No fees are payable for membership of the Nomination Committee.

Annual fees for Board Responsibilities

	2018 £'s	2017* £'s
Board		
Chairman**	42,000	42,000
Senior Independent Director	25,500	25,500
Director	24,000	24,000
Audit & Management Engagement Committee		
Chairman	6,000	6,000
Members	2,000	2,000

* Actual
** Includes membership of the Audit and Management Engagement Committee

Directors' interests in the Company

The interests of the Directors at the beginning and end of the year under review are shown below:

Directors' interests (audited)

Year ending 30 April	2017		2016	
	Ordinary shares	CULS	Ordinary shares	CULS
Anthony Townsend	18,000	–	18,000	–
Andrew Adcock	5,000	25,000	5,000	25,000
Anja Balfour	2,000	–	1,600	–
Jo Dixon	2,000	–	2,000	–
David Stileman	1,000	–	1,000	–
Jane Tozer	3,722	6,389	3,722	6,389

The Company's register of Directors' interests contains full details of Directors' shareholdings.

There have been no changes in any of the Directors' interests detailed above between 30 April 2017 and the date of this report. No Director held any interest, beneficial or otherwise, in the issued shares or CULS of the Company other than stated above.

As at 14 June 2017 the Lead Manager held 22,875 ordinary shares and 20,208 CULS in the Company.

Implementation Report

An ordinary resolution for the approval of the Directors' Annual Report on Remuneration will be put to shareholders at the forthcoming Annual General Meeting. At the Company's last Annual General Meeting, shareholders approved the Directors' Annual Report on Remuneration in respect of the year ended 30 April 2016. 92.18% of votes were cast in favour of the resolution, 7.70% against and 0.12% withheld.

The information in the table below for the years ending 30 April 2017 and 2016 has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

Directors' emoluments for the year

The Directors who served during the year received the following amounts for services as non-executive Directors for the years ended 30 April 2017 and 2016 and can expect to receive the fees indicated for 2018 as well as reimbursement for expenses necessarily incurred:

Fees for services to the Company (audited)

	Fees £'000s (audited)		Taxable Benefits[1] £'000s (audited)		Total £'000s (audited)		Anticipated Fees[2] £'000s
Director	2017	2016	2017	2016	2017	2016	2018
Anthony Townsend[3]	42.0	38.0	–	0.5	42.0	38.5	42.0
Andrew Adcock	26.0	24.0	–	0.6	26.0	24.6	26.0
Anja Balfour	26.0	22.0	3.3	2.5	29.3	24.5	26.0
Les Cullen[4]	–	6.4	–	–	–	6.4	–
Jo Dixon[5]	30.0	27.1	1.6	3.0	31.6	30.1	30.0
David Stileman	26.0	22.0	–	0.5	26.0	22.5	26.0
Jane Tozer	27.5	25.5	0.2	0.8	27.7	26.3	27.5
Total	177.5	165.0	5.1	7.9	182.6	172.9	177.5

(1) Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI contributions
(2) Fees expected to be payable to the Directors during the course of the year ending 30 April 2018. Taxable benefits are also anticipated but are not currently quantifiable
(3) Highest paid Director
(4) Retired 23 July 2015
(5) Appointed chairman of the Audit & Management Engagement Committee on 23 July 2015

The information in the table above for the years ending 30 April 2017 and 2016 has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

The table below shows the actual expenditure during the year in relation to Directors' remuneration excluding taxable benefits and shareholder distributions:

Relative importance of pay

Year ended 30 April	2017 £'000s	2016 £'000s	% Change
Aggregate Directors' Remuneration	177.5	165.0	7.6
Management and other operating expenses[1]	3,985	3,947[2]	1.0
Dividends paid to Shareholders in the year	6,577	5,342	23.1

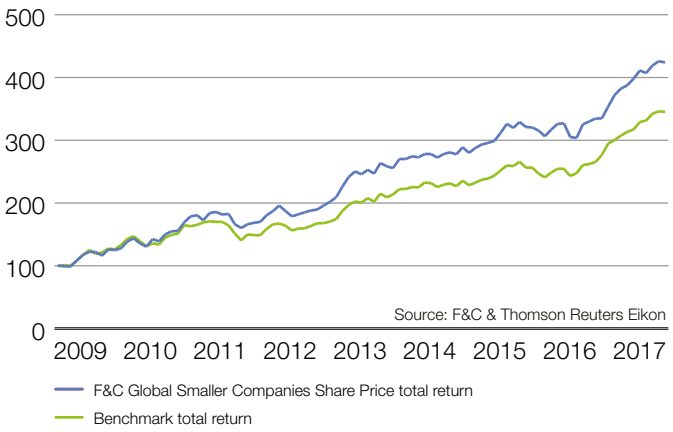
(1) Includes Directors' remuneration
(2) Includes performance fee

Company Performance

The Board is responsible for the Company's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Manager. An explanation of the performance of the Company for the year ended 30 April 2017 is given in the Chairman's Statement and Manager's Review.

A comparison of the Company's performance over the required eight year period is set out in the following graph. This shows the total return (assuming all dividends are reinvested) to ordinary shareholders against the Company's Benchmark.

Shareholder total return vs Benchmark total return over eight years



On behalf of the Board
Anthony Townsend
Chairman
20 June 2017

Report of the Audit and Management Engagement Committee

The Audit and Management Engagement Committee (the "Committee") has focused on regulatory developments throughout the year and on the Manager's cyber-security measures given the increasing levels of threat generally.

Role of the Committee

The primary responsibilities of the Committee are to: monitor the integrity of the financial reporting and statements of the Company; to oversee the audit of the annual accounts, preparation of the half yearly accounts and the internal control and risk management processes; and to assess the performance of the Manager and review the fees charged. The Committee met twice during the year with F&C's Head of Trust Accounting, Head of Investment Trusts, the Risk Manager and the Lead Manager in attendance. PwC attended the meeting at which the financial statements for the year ended 30 April 2017 were reviewed and met in private session with the Committee.

Specifically, the Committee considered, monitored and reviewed the following matters:

- The audited annual results statement and annual report and accounts and the unaudited half-yearly report and accounts, including advice to the Board as to whether the annual report and accounts taken as a whole are fair, balanced and understandable;
- The accounting policies of the Company;
- The Principal Risks faced by the Company and the effectiveness of the Company's internal control and risk management environment, including consideration of the assumptions underlying the Board's Future Prospects statement on viability;
- The effectiveness of the audit process and the current independence and objectivity of the external auditor, their reappointment, remuneration and terms of engagement;
- The policy on the engagement of the external auditor to supply non-audit services in light of new ethical standards;
- The need for the Company to have its own internal audit function;
- The receipt of AAF and SSAE16 reports or their equivalent from F&C, the Custodian and a due diligence report from the Company's Share Registrar;
- The performance of the Company's third party service providers and administrators, other than F&C, and the fees charged in respect of those services;
- The performance of the Manager and their fees; and
- The Committee's terms of reference for approval by the Board.

Comprehensive papers relating to each of these matters were prepared for discussion. These were debated by the Committee and any recommendations were fully considered if there was a judgement to be applied in arriving at conclusions. Recommendations were then made to the Board as appropriate.

The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information as is noted in the Statement of Directors' Responsibilities on page 49. On broader control policy issues, the Committee has reviewed, and is satisfied with F&C's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by F&C under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for communication by F&C to this Committee where matters might impact the Company with appropriate follow up action. In the year under review, there were no such concerns raised with the Committee.

Composition of the Committee

The Board recognises the requirement for the Committee as a whole to have competence relevant to the sector in which the Company operates and at least one member with recent and relevant experience. The Committee is currently composed of the full Board and its terms of reference can be found on the website at www.fandcglobalsmallers.com. All the Committee members are independent non-executive Directors. Jo Dixon, Chairman of the Committee, is a Chartered Accountant and she is currently audit committee chairman of other listed companies. The other members of the Committee have a combination of financial, investment and business experience through the senior posts held throughout their careers. The majority have a wide experience of the investment trust sector.

Management of risk

F&C's Business Risk department provides regular control report updates to the Committee covering risk and compliance whilst any significant issues of direct relevance to the Company are required to be reported to the Committee and Board immediately.

A key risk "radar" summary is produced by F&C in consultation with the Board to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix at each of its meetings and dynamically reviews the significance of the risks and the reasons for any changes. F&C are integrating their control framework within the wider BMO organisation and the Committee is monitoring the continued awareness of Company relevant control issues.

The Company's Principal Risks are set out on page 28 with additional information given in note 26 on the Accounts. The Committee noted the robustness of the Board's review of Principal Risks and of course participated as Board members themselves. The integration of these risks into the analyses underpinning the "Five Year Horizon" Statement on viability on page 29 was fully considered and the Committee

Significant Judgements and Issues considered by the Committee for the year ended 30 April 2017	
Matter	**Action**
Investment Portfolio Valuation	
Although the Company's portfolio of investments is predominantly invested in highly liquid securities quoted on recognised stock exchanges, errors in the valuation could have a material impact on the Company's NAV per share.	The Board reviewed the full portfolio valuation twice in the year and the Committee also reviewed the valuation of the unquoted portfolio in detail. The Committee reviewed the annual audited internal control report from F&C. This report indicated that the relevant systems and controls surrounding daily pricing, cash and holdings reconciliations and security valuation had operated satisfactorily.
Misappropriation of Assets	
Misappropriation of the Company's investments or cash balances could have a material impact on its NAV per share.	The Committee reviewed the annual audited internal control reports of F&C and the Custodian. Neither of these reports indicated any failures of controls over the existence and safe custody of the Company's investments and cash balances. The Company's Depositary reported quarterly on the safe custody of the Company's investments and the operation of controls over the movement of cash in settlement of investment transactions. Through these reports the Committee is satisfied that the assets remained protected throughout the year.
Income Recognition	
Incomplete controls over, or inaccurate recognition of, income could result in the Company misstating its revenue receipts and associated tax, with consequences for overall performance, payment of dividends to shareholders, and compliance with taxation rules.	The Committee's review of F&C's annual audited controls report indicated that there were no control failures in the year. The Committee reviewed and approved at the interim and final accounts reporting meetings, all dividend receipts deemed to be capital (special) in nature by virtue of their payment out of investee company restructuring rather than ordinary business operations. In addition, the Committee reviewed that all special dividends had been correctly treated in accordance with the Company's accounting policy.

concluded that the Board's statement was soundly based. The period of five years was also agreed as appropriate for the reasons given in the Statement.

Internal controls

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations, which are managed by F&C. The Committee has reviewed and reported to the Board on these controls, which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Committee through regular reports provided by F&C. The reports cover investment performance, performance attribution, compliance with agreed and regulatory investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans and other relevant management issues.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, or loss or fraud. Further to the review by the Committee, the Board has assessed the effectiveness of the Company's internal controls. The assessment included a review of the F&C risk management infrastructure and the report on policies and procedures in operation and tests for the year to 31 October 2016 (the "**AAF Report**") and subsequent confirmation from F&C that there had been no material changes to the control environment in the period to 6 June 2017. This has been prepared by F&C for all its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). The AAF Report from independent reporting accountants KPMG sets out F&C's control policies and procedures with respect to the management of clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by F&C's Group Audit and Compliance Committee, which receives regular reports from its Internal Audit department. Procedures are also in place to capture and evaluate any failings and weaknesses within F&C's control environment and those extending to any outsourced service providers to ensure that action would be taken to remedy any significant issues. Any errors or breaches relating to the Company are reported at each Committee and Board meeting by F&C. No failings or weaknesses material to the overall control environment and financial statements were identified in the year. The Committee also reviewed the control reports of the Custodian, the Depositary and the Registrar and were satisfied that there were no material exceptions.

Through the reviews noted above and by direct enquiry of F&C and other relevant parties, the Committee and the Board have satisfied themselves that there were no material control failures or exceptions affecting the Company's operations during the year nor to the date of this Report.

Based on the processes and controls in place within F&C, including confirmation by a reputable independent accounting firm that those controls operated satisfactorily, the Committee has concluded and the Board has concurred that there is no current need for the Company to have a separate internal audit function.

External audit process and significant issues considered by the Committee

In carrying out its responsibilities, the Committee has considered the planning arrangements, scope, materiality levels and conclusions of the external audit for the year. The table on page 46 describes the significant judgements and issues considered by the Committee in conjunction with PwC in relation to the financial statements for the year and how these issues were addressed. The Committee also included in their review the areas of judgements, estimates and assumptions referred to in note 2(b)(xi) on the Accounts and welcomes this increase in transparency on such issues.

Procedures for verifying investment valuation and existence and recognition of income were the main areas of audit focus and testing.

The Committee met in June 2017 to discuss the final draft of the Report and Accounts, with representatives of PwC and F&C in attendance. PwC submitted their Year End Report and confirmed that they had no reason not to issue an unqualified audit report in respect of the Report and Accounts. The Committee established that there were no material issues or findings arising which needed to be brought to the attention of the Board. Consequently, the Committee recommended to the Board that the Report and Accounts were in their view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best

practice. The Independent Auditors' report, which sets out the unqualified audit opinion, the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 51 to 55.

Auditor assessment, independence and appointment

The Committee reviews the reappointment of the auditor every year and has been satisfied with the effectiveness of PwC's performance on the audit just completed. PwC have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating PwC, the Committee has taken into consideration the standing, skills and experience of the firm and the audit team. From direct observation and indirect enquiry of management, the Committee is satisfied that PwC will continue to provide effective independent challenge in carrying out their responsibilities. The fee for the audit was £31,500, having been agreed by the Committee. This compared with £34,000 paid to PwC last year that included a one-off charge for the review of the Company's adoption of new UK Accounting Standards.

PwC have been the auditor to the Company since its inception in 1889 and the appointment has not been put out to tender notwithstanding their long tenure. Under mandatory audit rotation rules, the Company will be required to put the external audit out to tender at least every ten years. Given the EU regulations and transition rules on firm rotation, PwC will not be available for re-appointment as auditors beyond the Annual General Meeting following 17 June 2020. In the meantime, the Committee will continue to consider their appointment annually and the need for any change for reasons of quality or independence. At the forthcoming Annual General Meeting shareholders will of course vote on the reappointment of PwC for the 2018 audit.

Non-audit services

The Committee regards the continued independence of the external auditors to be a matter of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditors are not considered to be expert providers of the non-audit services; and
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; the services are considered to be likely to inhibit the auditor's independence or objectivity as auditors.

In particular, the Committee has a policy that the accumulated costs of all non-audit services sought from the auditors in any one year should not exceed 30% of the likely audit fees for that year and not exceed 70% cumulatively over three years.

There were no non-audit services for the year ended 30 April 2017.

Committee evaluation

The activities of the Committee were considered as part of the Board appraisal process completed in accordance with standard governance arrangements as summarised on page 41.

Jo Dixon
Audit and Management Engagement Committee Chairman
20 June 2017

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Report and Accounts is published on the www.fandcglobalsmallers.com website, which is maintained by F&C. The Directors are responsible for the maintenance and integrity of the Company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure Guidance and Transparency Rule 4.1.12

Each of the Directors listed on page 32 confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces;
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- the financial statements and the Directors' Report include details on related party transactions.

On behalf of the Board
Anthony Townsend
Chairman
20 June 2017

‘More than half of our shareholders in the F&C savings plans invest in children’s savings products.’

Independent Auditors' Report

Report on the financial statements

Our opinion

In our opinion, F&C Global Smaller Companies PLC's financial statements (the "**financial statements**"):

- give a true and fair view of the state of the company's affairs as at 30 April 2017 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Accounts (the "**Annual Report**"), comprise:

- the Balance Sheet as at 30 April 2017;
- the Income Statement for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial

Our audit approach

Overview

- Overall materiality: £7.3 million which represents 1% of Net assets.

- The company is an Investment Trust Company and engages F&C Investment Business Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements from information provided by State Street Bank and Trust Company (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the company operates.

- Income from investments.
- Valuation and existence of investments.

statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the company, the involvement of the Manager and State Street Bank and Trust Company (the "Administrator"), the accounting processes and controls, and the industry in which the company operates.

Area of focus	How our audit addressed the area of focus
Income from investments	
We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the '**AIC SORP**'). This is because incomplete or inaccurate income could have a material impact on the company's net asset value and dividend cover. We also focused on the accuracy and occurrence of realised and unrealised gains and losses on the investment portfolio.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. **We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.** In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of revenue and capital special dividends to independent third party sources. **We did not find any special dividends that were not treated in accordance with the AIC SORP.** We also checked that the gains or losses on investments held at fair value comprise realised and unrealised gains or losses. For realised gains or losses, we tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, and also tested the reconciliation of the opening to closing investments value. **No misstatements were identified by our testing which required reporting to those charged with governance.**
Valuation and existence of investments	
The investment portfolio at the year-end principally comprised listed equity investments valued at £757.6m. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. We tested the existence of the investment portfolio by agreeing the holdings for listed equity investments to an independent custodian confirmation from JP Morgan Chase Bank. **No misstatements were identified by our testing which required reporting to those charged with governance.**

The Manager delegates certain accounting and administrative functions to the Administrator on which they report to the Manager.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of one month between the period covered by the controls report of the Administrator and the year-end of the company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality
£7.3 million (2016: £5.5 million).
How we determined it
1% of net assets.
Rationale for benchmark applied
We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £367,000 (2016: £276,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 34, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is:

– materially inconsistent with the information in the audited financial statements; or
– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
– otherwise misleading.

We have no exceptions to report.

- the statement given by the Directors on page 33, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.

  We have no exceptions to report.

- the section of the Annual Report on page 45, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

  We have no exceptions to report.

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 28 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.

  We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

  We have nothing material to add or to draw attention to.

- the Directors' explanation on page 29 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

  We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the company and the Directors' statement in relation to the longer-term viability of the company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

  We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code.

We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 June 2017

'This is the fifth consecutive year where both the net asset value ("NAV") and share price have risen, and the NAV growth was the second best of the last decade.'

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	Revenue £'000s	Capital £'000s	2017 Total £'000s	Revenue £'000s	Capital £'000s	2016 Total £'000s
	11	Gains on investments	–	162,084	162,084	–	16,820	16,820
	20	Foreign exchange gains	47	1,050	1,097	17	217	234
3		Income	10,416	–	10,416	8,486	–	8,486
4	4	Management fee	(815)	(2,447)	(3,262)	(498)	(1,495)	(1,993)
	5	Performance fee	–	–	–	–	(1,314)	(1,314)
6		Other expenses	(701)	(22)	(723)	(618)	(22)	(640)
		Net return before finance costs and taxation	8,947	160,665	169,612	7,387	14,206	21,593
7	7	Finance costs	(442)	(1,327)	(1,769)	(435)	(1,306)	(1,741)
		Net return on ordinary activities before taxation	8,505	159,338	167,843	6,952	12,900	19,852
8	8	Taxation on ordinary activities	(666)	–	(666)	(500)	–	(500)
		Net return attributable to equity shareholders	7,839	159,338	167,177	6,452	12,900	19,352
9	9	Return per share (basic) – pence	13.99	284.39	298.38	11.86	23.72	35.58
9	9	Return per share (diluted) – pence	13.80	267.79	281.59	11.78	23.72	35.58

The total column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
A statement of total comprehensive income is not required as all income and expenses of the Company have been reflected in the above statement.

The notes on pages 61 to 77 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 30 April 2017

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Equity component of CULS £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 30 April 2016	13,853	141,046	16,158	1,307	368,185	12,643	553,192
	Movements during the year ended 30 April 2017							
10	Dividends paid	–	–	–	–	–	(6,577)	(6,577)
	Shares issued	323	15,079	–	–	–	–	15,402
14	Conversion of Convertible Unsecured Loan Stock ("CULS")	108	4,118	–	(138)	–	–	4,088
	Net return attributable to equity shareholders	–	–	–	–	159,338	7,839	167,177
	Balance at 30 April 2017	14,284	160,243	16,158	1,169	527,523	13,905	733,282

for the year ended 30 April 2016

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Equity component of CULS £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 30 April 2015	13,281	119,394	16,158	1,312	355,285	11,533	516,963
	Movements during the year ended 30 April 2016							
10	Dividends paid	–	–	–	–	–	(5,342)	(5,342)
	Shares issued	569	21,555	–	–	–	–	22,124
14	Conversion of Convertible Unsecured Loan Stock ("CULS")	3	97	–	(5)	–	–	95
	Net return attributable to equity shareholders	–	–	–	–	12,900	6,452	19,352
	Balance at 30 April 2016	13,853	141,046	16,158	1,307	368,185	12,643	553,192

The notes on pages 61 to 77 form an integral part of the financial statements.

Balance Sheet

Notes	at 30 April		2017 £'000s		2016 £'000s
		£'000s		£'000s	
	Fixed assets				
11	Investments		761,269		581,611
	Current assets				
12	Debtors	4,462		2,529	
	Cash at bank and short-term deposits	10,061		12,249	
		14,523		14,778	
	Creditors: amounts falling due within one year				
13	Creditors	(7,813)		(4,787)	
	Net current assets		6,710		9,991
	Total assets less current liabilities		767,979		591,602
	Creditors: amounts falling due after more than one year				
14	Convertible Unsecured Loan Stock ("CULS")		(34,697)		(38,410)
	Net assets		733,282		553,192
	Capital and reserves				
16	Called up share capital		14,284		13,853
17	Share premium account	160,243		141,046	
18	Capital redemption reserve	16,158		16,158	
19	Equity component of CULS	1,169		1,307	
20	Capital reserves	527,523		368,185	
20	Revenue reserve	13,905		12,643	
			718,998		539,339
	Total shareholders' funds		733,282		553,192
21	**Net asset value per share (basic) – pence**		1,283.42		998.34
21	**Net asset value per share (diluted) – pence**		1,263.52		994.50

The notes on pages 61 to 77 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 20 June 2017 and signed on its behalf by

Anthony Townsend, Chairman

Statement of Cash Flows

Notes	for the year ended 30 April	2017 £'000s	2016 £'000s
22	Cash inflows from operating activities	3,452	2,617
	Investing activities		
	Purchases of investments	(238,411)	(227,066)
	Sales of investments	222,867	206,005
	Other capital charges	(18)	(21)
	Cash outflows from investing activities	(15,562)	(21,082)
	Cash outflows before financing activities	(12,110)	(18,465)
	Financing activities		
	Ordinary dividends paid	(6,577)	(5,342)
	Proceeds from issue of shares	15,402	22,320
	Cash inflows from financing activities	8,825	16,978
	Net movement in cash and cash equivalents	(3,285)	(1,487)
	Cash and cash equivalents at the beginning of the year	12,249	13,502
	Effect of movement in foreign exchange	1,097	234
	Cash and cash equivalents at the end of the year	10,061	12,249

Represented by:		
Cash at bank and short-term deposits	10,061	12,249

The notes on pages 61 to 77 form form an integral part of the financial statements.

Notes on the Accounts

1. General information

F&C Global Smaller Companies PLC is an investment company incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company registration number is 28264 and the registered office is Exchange House, Primrose Street, London, EC2A 2NY, England.

The Company conducts its affairs so as to qualify as an investment trust under the provisions of section 1158 of the Corporation Tax Act 2010 ("section 1158"). Approval of the Company under section 1158 has been received. The Company intends to conduct its affairs so as to enable it to continue to comply with the requirements. Such approval exempts the Company from UK Corporation Tax on gains realised on its portfolio of fixed asset investments.

2. Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 2006, Financial Reporting Standard (FRS) 102 applicable in the United Kingdom and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in November 2014.

The functional and presentational currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

In accordance with the SORP, the Income Statement has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2(b) below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which interim and final dividend payments are made. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and currency profits and losses on cash and borrowings. The Company's Articles prohibit the distribution of net capital returns by way of dividend. Such returns are allocated via the capital account to the capital reserves. Dividends paid to equity shareholders are shown in the Statement of Changes in Equity.

(b) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Financial instruments

Financial instruments include fixed asset investments, derivative assets and liabilities, long-term debt instruments, cash and short-term deposits, debtors and creditors. Accounting standards recognise a hierarchy of fair value measurements for financial instruments measured at fair value on the Balance Sheet which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on AIM in the UK.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate of fair value, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are unquoted investments.

2. Significant accounting policies (continued)

(ii) Fixed asset investments and derivative financial instruments.

As an investment trust, the Company measures its fixed asset investments and derivative financial instruments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments and derivative financial instruments as transactions on the capital account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales.

Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments are carried at cost less any provision for impairment.

(iii) Debt instruments

Interest-bearing loans and overdrafts are recorded initially at the proceeds received, net of issue costs, irrespective of the duration of the instrument. No debt instruments held during the year required hierarchical classification.

Finance charges, including interest, are accrued using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period. See (vi) below for allocation of finance charges within the Income Statement.

In July 2014 the Company issued CULS, the accounting policies for which are set out below.

(a) The CULS are regarded as a compound instrument comprising a liability and an equity component. The fair value of the liability component, assessed at the date of issue of the CULS, was estimated based on an equivalent non-convertible security. The fair value of the equity component was derived by deducting the CULS issue proceeds from the fair value of the liability component.

(b) The liability component is subsequently measured at amortised cost using the effective interest rate. The equity component value remains unchanged over the life of the CULS.

(c) Costs incurred directly as a result of the CULS issue are allocated between the liability and equity components in proportion to the split of the proceeds. Expenses allocated to the liability component are amortised over the life of the CULS using the effective interest rate.

(d) Finance costs on the CULS, comprising interest payable and amortised costs, are calculated based on an effective interest rate of 4.7%. Amortised costs are allocated against the CULS liability.

(e) On conversion of the CULS, equity is issued and the relevant liability component is de-recognised.

Further details on the CULS can be found in note 14.

(iv) Foreign currency

Monetary assets, monetary liabilities and equity investments denominated in a foreign currency are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, derivative financial instruments, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions.

Foreign exchange profits and losses on fixed asset investments and derivative financial instruments are included within the changes in fair value in the capital account. Foreign exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items when they are credited or charged to the revenue account.

(v) Income

Income from equity shares is brought into the revenue account (except where, in the opinion of the Directors, its nature indicates it should be recognised within the capital account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Dividends are accounted for in accordance with FRS102 on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies are shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital account.

Underwriting commission is recognised when the Company's right to receive payment is established. Deposit interest is accounted for on an accruals basis.

2. Significant accounting policies (continued)

(vi) Expenses, including finance charges

Expenses are charged to the revenue account of the Income Statement, except as noted below:

- expenses incidental to the acquisition or disposal of fixed asset investments and derivative financial instruments are included within the cost of the investments and derivative financial instruments or deducted from the disposal proceeds of investments and derivative financial instruments and are thus charged to capital reserve – arising on investments sold via the capital account;
- 75% of management fees and 75% of finance costs (including finance costs on CULS) are allocated to capital reserve – arising on investments sold via the capital account, in accordance with the Board's long-term expected split of returns from the investment portfolio of the Company.
- performance fees insofar as they relate to capital performance are allocated to capital reserve – arising on investments sold; and
- all expenses are accounted for on an accruals basis.

(vii) Taxation

Taxation currently payable is calculated using tax rules and rates in force at the year end, based on taxable profit for the year, which differs from the net return before tax. Note 8(b) sets out those items which are not subject to UK Corporation Tax.

Deferred tax is provided on an undiscounted basis on all timing differences that have originated but not reversed by the balance sheet date, based on the tax rates that have been enacted at the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

(viii) Share Premium

The surplus of net proceeds received from the issue of new ordinary shares over the nominal value of such shares is credited to this account which is non-distributable. The nominal value of the shares issued is recognised in share capital.

(ix) Capital Redemption Reserve

The nominal value of ordinary share capital purchased and cancelled is transferred out of called-up share capital and into the capital redemption reserve, which is a non-distributable reserve, on the trade date.

(x) Capital Reserves

These are distributable reserves which may be utilised for the repurchase of share capital:

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

- 75% of management fees and finance costs as set out in note 2(b)(vi);
- performance fees as set out in note 2(b)(vi);
- gains and losses on the realisation of fixed asset investments and derivative financial instruments;
- foreign exchange differences of a capital nature;
- costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;
- other capital charges and credits charged or credited to this account in accordance with the above policies; and
- costs of purchasing ordinary share capital.

Capital reserve – arising on investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of fixed asset investments held at the year end.

2. Significant accounting policies (continued)

(xi) Use of judgements, estimates and assumptions

The presentation of the financial statements in accordance with accounting standards requires the Board to make judgements, estimates and assumptions that affect the accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on perceived risks, historical experience, expectations of plausible future events and other factors. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: recognising and classifying unusual or special dividends received as either revenue or capital in nature; and setting the level of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to Investment Trust status rules under Section 1158 of the Corporation Tax Act 2010.

Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine their allocation in accordance with the SORP to either the Revenue Account or Capital Reserves. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to Capital Reserves. Investee company dividends which appear to be paid in excess of current year profits may nevertheless still be considered to be wholly revenue in nature unless evidence suggests otherwise.

3. Income

	2017 £'000s	2016 £'000s
Income from investments		
Dividends	10,303	8,277
Scrip dividends	81	166
	10,384	8,443
Other Income		
Interest on cash and short-term deposits	32	41
Underwriting commission	–	2
Total income	10,416	8,486
Total income comprises:		
Dividends	10,384	8,443
Other income	32	43
	10,416	8,486
Income from investments comprises:		
Quoted	10,370	8,443
Unquoted	14	–
	10,384	8,443

4. Management fees

	2017 Revenue £'000s	2017 Capital £'000s	2017 Total £'000s	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s
Management fee	815	2,447	3,262	498	1,495	1,993

The Manager, F&C Investment Business Limited ("FCIB") provides investment management, marketing and general administrative services to the Company. The management fee is an amount equal to 0.55% per annum (0.40% prior to 1 May 2016), payable monthly in arrears, of net assets managed by the Manager at the calculation date. Investments made by the Company in third party collective investment schemes are subject to a management fee, payable monthly in arrears to the Manager, of 0.275% (0.25% prior to 1 May 2016) per annum of the month end market value of those investments. The management agreement may be terminated upon six months' notice given by either party.

The fees have been allocated 75% to capital reserve in accordance with accounting policies.

5. Performance fee

	2017 Capital £'000s	2016 Capital £'000s
Performance fee	–	1,314

With effect from 1 May 2016, the Manager is no longer entitled to a Performance fee. The Performance fee accrued at 30 April 2016 was £1,314,000 and was allocated fully to capital reserve in accordance with the Company's accounting accounting policies.

6. Other expenses

	2017 £'000s	2016 £'000s
Auditors' remuneration:		
audit services*	35	37
non-audit services*	–	5
Directors' fees for services to the Company†	178	165
Marketing	147	148
Printing and postage	79	73
Custody fees	31	25
Depositary fees	70	56
Sundry expenses	161	109
	701	618

* Auditors' remuneration for audit services, exclusive of VAT, amounts to £31,500 (2016: £34,000). Total auditors' remuneration for non-audit services, exclusive of VAT, amounts to £nil (2016: £5,000 comprising taxation compliance services). No part of these amounts was charged to capital reserves (2016: £nil).

† See the Directors' Remuneration Report on page 44.

All expenses are stated gross of irrecoverable VAT, where applicable.

7. Finance costs

	2017 Revenue £'000s	2017 Capital £'000s	2017 Total £'000s	2016 Revenue £'000s	2016 Capital £'000s	2016 Total £'000s
CULS interest payable and amortised costs	442	1,327	1,769	435	1,306	1,741

Finance costs have been allocated 75% to capital reserve in accordance with the Company's accounting policies.

8. Taxation on ordinary activities

(a) Analysis of tax charge for the year

	2017			2016		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax payable at 19.9% (2016: 20.0%)	–	–	–	–	–	–
Overseas taxation	666	–	666	500	–	500
Total tax charge for the year (note 8(b)) on ordinary activities	666	–	666	500	–	500

The tax assessed is lower than the standard rate of Corporate Tax in the UK (2016: lower).

(b) Factors affecting tax charge for the year

	2017			2016		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Net return on ordinary activities before taxation	8,505	159,338	167,843	6,952	12,900	19,852
Return on ordinary activities multiplied by the standard rate of corporation tax of 19.9% (2016: 20.0%)	1,693	31,708	33,401	1,391	2,580	3,971
Effects of:						
Dividends*	(2,066)	–	(2,066)	(1,689)	–	(1,689)
Expenses not deductible for tax purposes	15	–	15	17	–	17
Overseas tax in excess of double taxation relief	666	–	666	500	–	500
Expenses not utilised in the year	358	756	1,114	281	827	1,108
Capital returns*	–	(32,464)	(32,464)	–	(3,407)	(3,407)
Total tax charge for the year (note 8(a))	666	–	666	500	–	500

*The Company is not subject to corporation tax on capital gains or on dividend income. It therefore has unutilised expenses which have given rise to a deferred tax asset of £7.0m (2016: £6.3m). This asset has not been recognised as the Directors believe it is unlikely that the Company will have sufficient taxable profits in future to utilise it. Of this amount £1.7m (2016: £1.4m) relates to revenue expenses and £5.3m (2016: £4.9m) to capital expenses.

9. Return per ordinary share

Earnings for the purpose of basic earnings per share is the profit for the year attributable to ordinary shareholders and based on the following data.

	2017			2016		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Net return attributable to equity shareholders – £'000s	7,839	159,338	167,177	6,452	12,900	19,352
Return per share – pence	13.99	284.39	298.38	11.86	23.72	35.58

Both the revenue and capital returns per share are based on a weighted average of 56,028,214 ordinary shares in issue during the year (2016: 54,396,920).

Diluted earnings per share

Earnings for the purpose of diluted earnings per share is the adjusted profit for the year attributable to ordinary shareholders and based on the following data.

	2017			2016		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Adjusted net return attributable to equity shareholders – £'000s	8,281	160,665	168,946	6,887	14,206	21,093
Return per share – pence	13.80	267.79	281.59	11.78	23.72	35.58

Both the revenue and capital returns per share are based on a weighted average of 59,996,888 ordinary shares in issue during the year (2016: 58,476,340). There was no dilution of capital or total return in the year to 30 April 2016.

For the purpose of calculating diluted total, revenue and capital returns per ordinary share, the number of ordinary shares used is the weighted average number used in the basic calculation plus the number of ordinary shares deemed to be issued for no consideration on exercise of all CULS. Total returns attributable to shareholders, adjusted for CULS finance costs accounted for in the period, are divided by the resulting weighted average shares in issue to arrive at diluted total returns per share. Once dilution has been determined, individual revenue and capital returns are calculated.

10. Dividends

Dividends on ordinary shares	Register date	Payment date	2017 £'000s	2016 £'000s
Interim for the year ended 30 April 2017 of 4.00 pence	6 January 2017	31 January 2017	2,243	–
Final for the year ended 30 April 2016 of 7.80 pence	15 July 2016	12 August 2016	4,334	–
Interim for the year ended 30 April 2016 of 2.90 pence	8 January 2016	29 January 2016	–	1,594
Final for the year ended 30 April 2015 of 7.00 pence	17 July 2015	14 August 2015	–	3,748
			6,577	5,342

The Directors have proposed a final dividend in respect of the year ended 30 April 2017 of 8.25 pence per share, payable on 11 August 2017 to all shareholders on the register at close of business on 14 July 2017. The recommended final dividend is subject to approval by shareholders at the Annual General Meeting.

The attributable revenue and the dividends paid and proposed in respect of the financial year ended 30 April 2017 for the purposes of the income retention test for section 1159 of the Income and Corporation Tax Act 2010, are set out below:

	2017 £'000s
Revenue attributable to equity shareholders	7,839
Interim for the year ended 30 April 2017 of 4.00 pence	(2,243)
Proposed final for the year ended 30 April 2017 of 8.25 pence*	(4,737)
Amount transferred to revenue reserve for section 1159 purposes**	859

*Based on 57,417,074 shares in issue at 14 June 2017.

**Undistributed revenue for the year equated to 8.2% of total income of £10,416,000 (see note 3).

11. Investments

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	2017 Total £'000s	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	2016 Total £'000s
Cost brought forward	470,687	1,393	1,570	473,650	412,061	–	1,570	413,631
Gains/(losses) brought forward	106,607	(199)	1,553	107,961	133,648	–	1,360	135,008
Valuation brought forward	577,294	1,194	3,123	581,611	545,709	–	2,930	548,639
Movements in the year:								
Purchases at cost	242,608	–	14	242,622	220,476	–	–	220,476
Transfer between level 1 and level 2[2]	1,194	(1,194)	–	–	(1,393)	1,393	–	–
Transfer to level 3[3]	(2,941)	–	2,941	–	–	–	–	–
Sales proceeds	(221,462)	–	(3,586)	(225,048)	(204,324)	–	–	(204,324)
Gains on investments sold in year	54,011	–	923	54,934	43,867	–	–	43,867
Gains/(losses) on investments held at year end	106,879	–	271	107,150	(27,041)	(199)	193	(27,047)
Valuation of investments held at 30 April	757,583	–	3,686	761,269	577,294	1,194	3,123	581,611

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Cost at 30 April	544,447	–	1,711	546,158	470,687	1,393	1,570	473,650
Gains/(losses) at 30 April	213,136	–	1,975	215,111	106,607	(199)	1,553	107,961
Valuation at 30 April	757,583	–	3,686	761,269	577,294	1,194	3,123	581,611

(1) Level 1 includes investments listed on any recognised stock exchange or quoted on AIM in the UK.
Level 2 includes investments for which the quoted price has been suspended.
Level 3 includes unquoted investments, which are held at Directors' valuation.
(2) Transfer due to suspension of listing of investee company involved in bid speculation now being lifted.
(3) Transfer due to fund being valued at NAV of tender pool.

A full list of investments is set out on pages 24 to 27.

Gains on investments

	2017 £'000s	2016 £'000s
Gains on investments sold during the year	54,934	43,867
Gains/(losses) on investments held at year end	107,150	(27,047)
Total gains on investments	162,084	16,820

Substantial interests

At 30 April 2017 the Company held more than 3% of the following undertaking held as an investment which, in the opinion of the Directors, did not represent a participating interest:

Company	Country of registration and incorporation	Number of units/shares held	Holding* %
Australian New Horizons Fund	Australia	2,476,610	32.50

*The Company neither has a controlling interest nor participates in the management of this undertaking.

12. Debtors

	2017 £'000s	2016 £'000s
Investment debtors	3,438	1,257
Overseas taxation recoverable	126	127
Prepayments and accrued income	898	1,145
	4,462	2,529

13. Creditors: amounts falling due within one year

	2017 £'000s	2016 £'000s
Investment creditors	6,992	2,862
Interest accrued on CULS	348	349
Management fee accrued	298	171
Performance fee accrued	–	1,314
Accruals and deferred income	175	91
	7,813	4,787

14. Convertible Unsecured Loan Stock ("CULS")

	2017 £'000s	2016 £'000s
Balance brought forward	38,410	38,129
Transfer to share capital and share premium on conversion of CULS	(4,088)	(95)
Amortised costs	375	376
Balance carried forward	34,697	38,410

The Company issued 40 million CULS at £1 each which were admitted to the Official List and to trading on the London Stock Exchange on 30 July 2014.

The interest rate on the CULS is fixed at 3.5 per cent. per annum, payable semi-annually with the first interest period ending on 31 January 2015. CULS holders are able to convert their CULS into ordinary shares at no cost on 31 January and 31 July of each year throughout the life of the CULS. All outstanding CULS will be repayable at par on 31 July 2019 together with outstanding interest due. The rate of conversion of 977.6970 pence per £1 nominal of CULS for one ordinary share was set at a premium of 15% to the unaudited Net Asset Value per ordinary share at the time the CULS were issued.

At 30 April 2016, 39,852,198 units of CULS were in issue. On 31 July 2016, holders of 49,806 CULS converted their holdings into 5,094 ordinary shares and on 31 January 2017, holders of 4,155,835 CULS converted their holdings into 425,052 ordinary shares. At 30 April 2017, 35,646,557 units of CULS were in issue.

The market price of the CULS at 30 April 2017 was 128.25p per 100p nominal. The CULS are unsecured and are subordinate to any creditors of the Company.

15. Geographical and industrial classification (total assets less current liabilities)

	North America %	UK %	Europe %	Rest of World %	Japan %	2017 Total %	2016 Total %
Industrials	9.6	8.1	3.8	–	–	21.5	21.2
Collective investments	–	–	–	11.0	8.4	19.4	16.7
Financials	8.9	5.2	2.0	–	–	16.1	17.0
Consumer services	6.4	4.8	1.4	–	–	12.6	13.4
Consumer goods	2.7	2.5	2.9	–	–	8.1	8.3
Health care	5.2	2.0	0.7	–	–	7.9	10.0
Technology	4.6	1.8	0.8	–	–	7.2	6.0
Basic materials	0.7	2.0	0.5	–	–	3.2	2.1
Telecommunications	1.7	–	–	–	–	1.7	1.8
Oil & gas	0.5	0.9	–	–	–	1.4	1.8
Total investments	40.3	27.3	12.1	11.0	8.4	99.1	98.3
Net current assets/(liabilities)	0.7	0.5	(0.3)	–	–	0.9	1.7
Total assets less current liabilities	41.0	27.8	11.8	11.0	8.4	100.0	
2016 totals	42.7	28.8	11.7	9.4	7.4		100.0

16. Called up share capital

	Issued and fully paid	
Equity share capital	Number	£'000s
Ordinary shares of 25p each		
Balance brought forward	55,411,203	13,853
Shares issued	1,293,725	323
Shares issued on conversion of CULS	430,146	108
Balance carried forward	57,135,074	14,284

During the year 1,293,725 ordinary shares were issued, raising net proceeds after issue costs of £15,402,000. Since the year end, up to 14 June 2017, a further 282,000 ordinary shares have been issued, raising proceeds of £3,668,000.

On 9 August 2016, 5,094 ordinary shares were issued on the conversion of 49,806 CULS, at no cost to the CULS holders. On 10 February 2017, 425,052 ordinary shares were issued on the conversion of 4,155,835 CULS, at no cost to the CULS holders (see note 14).

17. Share premium account

	2017 £'000s	2016 £'000s
Balance brought forward	141,046	119,394
Premium on issue of shares	15,079	21,555
Transfer from CULS liability on conversion of CULS	3,980	92
Transfer from equity component of CULS on conversion of CULS	138	5
Balance carried forward	160,243	141,046

18. Capital redemption reserve

	2017 £'000s	2016 £'000s
Balance brought forward and carried forward	16,158	16,158

19. Equity component of CULS

	2017 £'000s	2016 £'000s
Balance brought forward	1,307	1,312
Transfer to share premium on conversion of CULS	(138)	(5)
Balance carried forward	1,169	1,307

20. Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Gains on investments sold in year	54,934	–	54,934	–
Gains on investments held at year end	–	107,150	107,150	–
Foreign exchange losses	1,050	–	1,050	–
Management fee (see note 4)	(2,447)	–	(2,447)	–
Other expenses	(22)	–	(22)	–
Finance costs (see note 7)	(1,327)	–	(1,327)	–
Revenue return	–	–	–	7,839
Net return attributable to ordinary shareholders	52,188	107,150	159,338	7,839
Dividends paid in the year	–	–	–	(6,577)
	52,188	107,150	159,338	1,262
Balance brought forward	260,224	107,961	368,185	12,643
Balance carried forward	312,412	215,111	527,523	13,905

Included within the capital reserve movement for the year are £525,000 (2016: £392,000) of transaction costs on purchases of investments, £214,000 (2016: £216,000) of transaction costs on sales of investments and £971,000 (2016: £890,000) of distributions received recognised as capital.

21. Net asset value per ordinary share

	2017	2016
Net assets attributable at the year end – (£'000s)	733,282	553,192
Number of ordinary shares in issue at the year end	57,135,074	55,411,203
Net asset value per share – pence	1,283.42	998.34

Diluted net asset value per ordinary share is based on net assets at the end of the year assuming the conversion of 35,646,557 (2016: 39,852,198) 100p CULS in issue at the rate of 977.6970 pence per £1 nominal of CULS for one ordinary share.

	2017 £'000s	2016 £'000s
Net assets attributable at the year end	733,282	553,192
Amount attributable to ordinary shareholders on conversion of CULS	34,697	38,410
Attributable net assets assuming conversion	767,979	591,602
	Number	Number
Ordinary shares in issue at the year end	57,135,074	55,411,203
Ordinary shares created on conversion of CULS	3,645,972	4,076,130
Number of ordinary shares for diluted calculation	60,781,046	59,487,333
Diluted net asset value per ordinary share – pence	1,263.52	994.50

22. Reconciliation of total return before finance costs and taxation to net cash flows from operating activities

	2017 £'000s	2016 £'000s
Profit before taxation	167,843	19,852
Adjust for returns from non-operating activities		
Gains on investments	(162,084)	(16,820)
Foreign exchange gains	(1,097)	(234)
Other expenses charged to capital	22	22
Return from operating activities	4,684	2,820
Adjust for non-cash flow items		
Decrease/(increase) in prepayments and accrued income	262	(114)
(Decrease)/increase in creditors	(1,108)	220
Scrip dividends	(81)	(166)
Amortised costs	375	376
Overseas taxation	(680)	(519)
Cash inflow from operating activities	3,452	2,617

23. Related party transactions

The following are considered related parties: the Board of Directors (the "Board"), the Manager and fellow members of BMO.

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Remuneration Report on page 44, and as set out in note 6 on the accounts. There are no outstanding balances with the Board at the year end. Transactions between the Company and the Manager are detailed in note 4 on management fees, note 5 on performance fees and note 13, where accrued management and performance fees are disclosed.

24. Going concern

The Company's investment objective, strategy and policy are subject to a process of regular Board monitoring and are designed to ensure that the Company is invested mainly in readily realisable, listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by the Custodian and agreements cover its borrowing facilities. Cash is held with banks approved and regularly reviewed by the Manager.

The Directors believe that: the Company's objective and policy continue to be relevant to investors; the Company operates within a robust regulatory environment; and the Company has sufficient resources to continue operating within its stated policy for the 12 month period commencing from the date of this report. Accordingly, the financial statements have been drawn up on the basis that the Company is a going concern.

25. Contingencies

VAT legal case

The Company reported in its annual report and accounts to 30 April 2016, an interest in a case brought against HMRC to recover VAT paid on management fees in the period 1997 to 2000. On 11 April 2017, the Supreme Court issued a judgement in favour of HMRC. As a consequence the Company will not be entitled to any recoveries of VAT paid in the relevant period.

26. Financial Risk Management

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an investment trust under the provisions of section 1158. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of fixed asset investments.

The Company invests in smaller companies worldwide in order to secure a high total return. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board, together with the Manager, is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK accounting standards and best practice, and include the valuation of financial assets and liabilities at fair value, except as noted in (d) below. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board sets policies for managing these risks within the Company's objective and meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

The Company's other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company aims to be fully invested, only holding cash to cater for short-term trading and business requirements. Borrowings, including CULS, are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in exchange rates. Gearing may be short or long-term, in sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on gearing.

Currency Exposure

The principal currencies to which the Company was exposed, and the relevant exchange rates against sterling, are analysed below:

	2017 At 30 April 2017	2017 Average for the year	2016 At 30 April 2016	2016 Average for the year
US dollar	1.2938	1.3044	1.4649	1.4990
Euro	1.1881	1.1911	1.2790	1.3562

26. Financial Risk Management (continued)

Based on the financial assets and liabilities held and the exchange rates applying at the balance sheet date, a weakening or strengthening of sterling against each of the principal currencies by 10% would have the following approximate effect on returns attributable to equity shareholders and on the net asset value ("NAV") per share:

Impact of Weakening of Sterling by 10%	2017 US$ £'000s	2017 € £'000s	2016 US$ £'000s	2016 € £'000s
Net revenue return attributable to equity shareholders	326	158	243	119
Net capital return attributable to equity shareholders	38,152	7,060	28,970	5,998
Net total return attributable to equity shareholders	38,478	7,218	29,213	6,117
Net asset value per share (basic) – pence	67.35	12.63	52.72	11.04

Impact of Strengthening of Sterling by 10%	2017 US$ £'000s	2017 € £'000s	2016 US$ £'000s	2016 € £'000s
Net revenue return attributable to equity shareholders	(267)	(130)	(199)	(98)
Net capital return attributable to equity shareholders	(31,215)	(5,777)	(23,702)	(4,907)
Net total return attributable to equity shareholders	(31,482)	(5,907)	(23,901)	(5,005)
Net asset value per share (basic) – pence	(55.10)	(10.34)	(43.13)	(9.03)

These analyses are presented in sterling and are representative of the Company's activities although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes. This level of change is considered to be a reasonable illustration based on observation of current market conditions.

The fair values of the Company's assets and liabilities at 30 April by currency are shown below:

2017	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	CULS (at amortised cost) £'000s	Net monetary assets/ liabilities £'000s	Investments £'000s	Net exposure £'000s
Sterling	898	4,368	(1,474)	(34,697)	(30,905)	289,629	258,724
US dollar	3,438	5,273	(3,325)	–	5,386	337,982	343,368
Euro	126	420	(3,014)	–	(2,468)	66,011	63,543
Other	–	–	–	–	–	67,647	67,647
Total	4,462	10,061	(7,813)	(34,697)	(27,987)	761,269	733,282

2016	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	CULS (at amortised cost) £'000s	Net monetary assets/ liabilities £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,145	5,603	(3,609)	(38,410)	(35,271)	225,665	190,394
US dollar	989	5,927	(383)	–	6,533	254,194	260,727
Euro	127	719	(795)	–	51	53,931	53,982
Other	268	–	–	–	268	47,821	48,089
Total	2,529	12,249	(4,787)	(38,410)	(28,419)	581,611	553,192

26. Financial Risk Management (continued)

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate movements at 30 April were:

	Within one year £'000s	More than one year £'000s	2017 Net total £'000s	Within one year £'000s	More than one year £'000s	2016 Net total £'000s
Exposure to floating rates – cash	10,061	–	10,061	12,249	–	12,249
Exposure to fixed rates – CULS	–	(35,647)	(35,647)	–	(39,852)	(39,852)
Net exposure	10,061	(35,647)	(25,586)	12,249	(39,852)	(27,603)
Minimum net exposure during the year	5,530	(39,803)	(34,273)	6,465	(39,951)	(33,486)
Maximum net exposure during the year	18,605	(39,852)	(21,247)	16,148	(39,868)	(23,720)

Exposures vary throughout the year as a consequence of changes in the make-up of the net assets of the Company arising out of the investment and risk management processes.

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rate applying on the CULS is set out in note 14 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, and to the ability of CULS holders to convert their holdings into ordinary shares.

Based on the financial assets and liabilities held, and the interest rates ruling, at each balance sheet date, a decrease or increase in interest rates of 2% would have the following approximate effects on the income statement revenue and capital returns after tax and on the NAV:

	2017 Increase in rate £'000s	2017 Decrease in rate £'000s	2016 Increase in rate £'000s	2016 Decrease in rate £'000s
Revenue return	201	(201)	245	(245)
Capital return	–	–	–	–
Total return	201	(201)	245	(245)
NAV per share – pence	0.35	(0.35)	0.44	(0.44)

The calculations in the table above which are based on the financial assets and liabilities held at each balance sheet date and assume outstanding CULS are unconverted, are not representative of the year as a whole, nor are they reflective of future market conditions.

Other market risk exposures

The Company did not enter into derivative transactions in managing its exposure to other market risks (2016: same). The portfolio of investments, valued at £761,269,000 at 30 April 2017 (2016: £581,611,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by geographical region and major industrial sector is set out in note 15 on the accounts.

Based on the portfolio of investments held at each balance sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV:

	2017 Increase in value £'000s	2017 Decrease in value £'000s	2016 Increase in value £'000s	2016 Decrease in value £'000s
Capital return	152,254	(152,254)	116,322	(116,322)
NAV per share – pence	266.48	(266.48)	209.93	(209.93)

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

26. Financial Risk Management (continued)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio, 194 at 30 April 2017 (2016: 194); the liquid nature of the portfolio of investments; and the industrial and geographical diversity of the portfolio (see note 15). Cash balances are held with reputable banks, usually on overnight deposit. The Company does not normally invest in derivative products. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The CULS is governed by a trust deed and is convertible in January and July each year at the behest of the holders, with outstanding CULS being redeemed in 2019. The Board does not consider the repayment of the CULS as a likely short-term liquidity issue.

The remaining contractual maturities of the financial liabilities at each balance sheet date, based on the earliest date on which payment can be required, were as follows:

2017	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities: creditors	7,465	–	–	7,465
CULS	–	–	35,647	35,647
Interest payable on CULS	624	624	1,871	3,119
	8,089	624	37,518	46,231

2016	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
Current liabilities: creditors	4,438	–	–	4,438
CULS	–	–	39,852	39,852
Interest payable on CULS	697	697	3,487	4,881
	5,135	697	43,339	49,171

(c) Credit risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. Such transactions must be settled on the basis of delivery against payment (except where local market conditions do not permit).

Responsibility for the approval, limit setting and monitoring of counterparties is delegated to the Manager. Counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Cash and deposits are held with reputable banks.

The Company has an ongoing contract with its Custodian for the provision of custody services. The contract was reviewed and updated in 2014. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The Custodian has a lien over the securities in the account, enabling it to sell or otherwise realise the securities in satisfaction of charges due under the agreement. The Company's Depositary, appointed in 2014, has regulatory responsibilities relating to segregation and safekeeping of the Company's financial assets, amongst other duties, as set out in the Directors' Report. The Board has direct access to the Depositary and receives regular reports from it via the Manager.

To the extent that the Manager carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk continuously through regular meetings with the management of F&C (including the Lead Manager) and with F&C's Business Risk function. In reaching its conclusions, the Board also reviews F&C's annual Audit and Assurance Faculty Report.

The Company had no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2016: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

26. Financial Risk Management (continued)

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value, or at a reasonable approximation thereof, except for the CULS, the liability component of which is measured at amortised cost using the effective interest rate. The fair value of the CULS was £45,717,000 (2016: £44,037,000).

The fair value of investments quoted on active markets is determined directly by reference to published price quotations in those markets. Unquoted investments are valued based on professional assumptions and advice that is not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investments.

(e) Capital risk management

The objective of the Company is stated as investing in smaller companies worldwide in order to secure a high total return. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in the short and long term; and pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to the ordinary share capital are set out in note 16 on the accounts. Dividend payments are set out in note 10 on the accounts. Details of the CULS are set out in note 14 on the accounts.

27. Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM is required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy and costs are available on the Company's website or from F&C on request.

The Company's maximum and actual leverage levels at 30 April 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum permitted limit	200%	200%
Actual	105%	105%

The Leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

28. Securities financing transactions ("SFT")

The Company has not, in the year to 30 April 2017 (2016: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

Ten Year Record (unaudited)

All data is based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies and is unaudited but derived from the audited Accounts.

Assets
at 30 April

£'000s	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets less current liabilities	249,574	198,100	160,994	218,384	251,604	256,776	350,090	441,086	555,092	591,602	767,979
Debenture and loans	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	–	–	–
CULS	–	–	–	–	–	–	–	–	38,129	38,410	34,697
Net assets	239,574	188,100	150,994	208,384	241,604	246,776	340,090	431,086	516,963	553,192	733,282

Net Asset Value ("NAV")
at 30 April

pence	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV (basic) per share	512.2	428.2	360.2	518.1	602.5	596.4	756.2	841.8	973.1	998.3	1,283.4
NAV (diluted) per share	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	970.3	994.5	1,263.5
NAV total return on 100p – 5 years (per Morningstar)											224.6
NAV total return on 100p – 10 years (per Morningstar)											273.1

Share Price
at 30 April

pence	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Middle market price per share	473.3	385.0	325.0	461.0	583.5	588.0	764.5	840.0	980.0	1,001.0	1,273.0
Share price high in year	473.3	482.0	405.0	461.0	587.0	618.0	779.0	879.5	1,025.0	1,024.0	1,299.0
Share price low in year	364.3	339.8	221.0	310.5	405.0	485.0	554.0	745.3	784.5	859.0	947.0
Share price total return on 100p – 5 years (per Morningstar)											227.3
Share price total return on 100p – 10 years (per Morningstar)											299.7

Revenue
for the year ended 30 April

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Available for ordinary shares – £'000s	2,270	2,510	2,430	2,016	2,039	2,799	3,044	4,461	5,659	6,452	7,839
Return per share	4.75p	5.54p	5.66p	4.88p	5.08p	6.87p	7.10p	9.31p	10.87p*	11.78p*	13.80p*
Dividends per share	4.69p	4.83p	4.89p	5.00p	5.10p	5.63p	6.50p	8.00p	9.65p	10.70p	12.25p

* diluted

Performance
(rebased at 30 April 2007)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NAV per share	100	83.6	70.3	101.2	117.6	116.4	147.6	164.3	190.0*	194.2*	246.7*
Middle market price per share	100	81.3	68.7	97.4	123.3	124.2	161.5	177.5	207.1	211.5	269.0
Earnings per share	100	116.6	119.2	102.7	106.9	144.6	149.5	196.0	228.8	249.7	290.5
Dividends per share	100	103.0	104.3	106.6	108.7	120.0	138.6	170.6	205.8	228.1	261.2
RPI	100	104.2	103.0	108.5	114.1	118.1	121.5	124.5	125.6	127.3	131.7

* diluted

Cost of running the Company
for the year ended 30 April

Expressed as a percentage of average net assets	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ongoing charges*											
excluding performance fees	–	–	–	–	1.00%	1.08%	0.85%	0.76%	0.79%	0.85%	0.84%
including performance fees	–	–	–	–	1.02%	1.56%	1.49%	0.78%	1.08%	0.85%	0.86%
Total expense ratio											
excluding performance fees	0.74%	0.77%	0.93%	0.78%	0.76%	0.79%	0.71%	0.50%	0.53%	0.51%	0.62%
including performance fees	0.99%	0.77%	0.93%	0.78%	0.76%	1.17%	1.22%	0.50%	0.74%	0.76%	0.62%

* Not calculated for years prior to 2011.

Gearing
at 30 April

%	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Effective gearing	2.7%	3.3%	4.1%	(3.3%)	2.7%	1.7%	(2.3%)	(1.3%)	4.8%	4.7%	3.4%
Fully invested gearing	4.2%	5.3%	6.6%	4.8%	4.1%	4.1%	2.9%	2.2%	7.4%	6.9%	4.7%

Analysis of ordinary shareholders at 30 April 2017

Category	Holding %
F&C savings plans	53.0
Nominees	33.6
Institutions	7.6
Direct individuals	5.8
	100.0

Source: F&C

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-eighth Annual General Meeting of the Company will be held at Pewterers Hall, Oat Lane, London EC2V 7DE on Thursday 27 July 2017 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions 1 to 13 as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 30 April 2017.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Remuneration Report.
4. To declare a final dividend of 8.25 pence per share.
5. To re-elect Andrew Adcock as a Director.
6. To re-elect Anja Balfour as a Director.
7. To re-elect Josephine Dixon as a Director.
8. To re-elect David Stileman as a Director.
9. To re-elect Anthony Townsend as a Director.
10. To re-elect Jane Tozer as a Director.
11. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
12. To authorise the Audit and Management Engagement Committee to determine the remuneration of the auditors.
13. Authority to allot shares
    THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "relevant securities") up to an aggregate nominal amount of £1,435,250 (representing approximately 10% of the issue share capital of the Company (excluding treasury shares)), during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2018 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "relevant period"); save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

To consider and, if thought fit, pass the following resolution as a special resolution:

14. Disapplication of pre-emption rights
    THAT, subject to the passing of resolution 13 above and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby empowered, pursuant to sections 570 and 573 of the Act, to allot equity securities (within the meaning of section 560 of the Act) either pursuant to the authority conferred by resolution 13 for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment or transfer, provided this power shall be limited to:
    (a) the allotment of equity securities in connection with an offer of equity securities:
        (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
        (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and
    (b) the allotment (otherwise than under paragraph (a) of this Resolution 14) of equity securities up to an aggregate nominal amount of £1,435,250, and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution (whichever is the earlier), unless extended by the Company in a general meeting ("the relevant period") save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry

of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.

To consider and, if thought fit, pass the following resolution as a special resolution:

15. Share buyback authority

THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

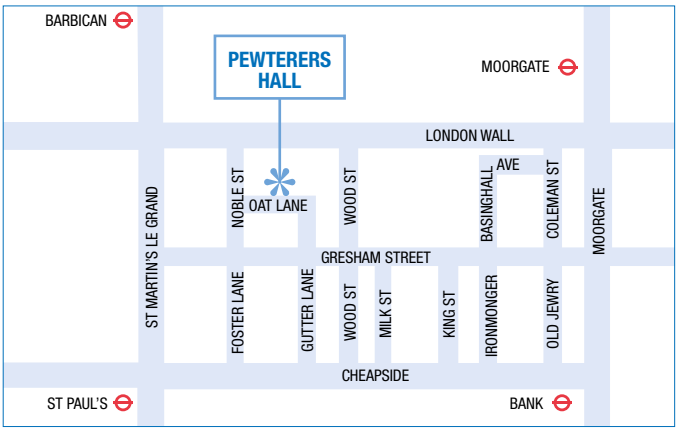
(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 8,606,000 or, if less, 14.99% of the number of ordinary shares in issue (excluding treasury shares) as at the date of the passing of this resolution;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased, and (ii) an amount equal to the higher of the price of the last independent trade for an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(e) the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or may be completed or executed wholly or partly after the expiration of such authority and the Company may purchase ordinary shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.



To consider and, if thought fit, pass the following resolution as an ordinary resolution:

16. Treasury shares

THAT, subject to the passing of resolution 14 set out above, the Directors be and they are hereby authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to sell or transfer out of treasury equity securities for cash at a price below the net asset value per share of the existing ordinary shares in issue (excluding treasury shares) pursuant to the authority conferred by resolution 14, provided that the discount at which such equity securities are sold or transferred out of treasury is: (i) always less than the weighted average discount at which the equity securities held in treasury have been purchased; and (ii) no more than 5% of the prevailing net asset value per share.

To consider and, if thought fit, pass the following resolution as a special resolution:

17. General Meeting Notice

THAT the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company.

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

18. Directors' fees

Authority to increase the maximum aggregate Directors' fees

THAT in accordance with Article 102 of the Company's Articles of Association, the maximum aggregate Directors' fees payable be increased from £200,000 to £300,000 per annum with immediate effect.

By Order of the Board
F&C Investment Business Limited
Secretary
20 June 2017

Registered office:
Exchange House
Primrose Street
London EC2A 2NY

Notes:

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.
2. Any person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such person complies with their respective disclosure obligations under the Disclosure Guidance and Transparency Rules.
3. A Form of Proxy is provided with this notice for members. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Computershare Investor Services PLC on 0370 889 4088. To be valid, the Form of Proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be received by post or (during normal business hours only) by hand at the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof. Completion and return of a Form of Proxy will not preclude members from attending and voting at the meeting should they wish to do so. Amended instructions must also be received by the Company's registrars by the deadline for receipt of Forms of Proxy.
4. Alternatively, members may register the appointment of a proxy for the meeting electronically, by accessing the website www.eproxyappointment.com where full instructions for the procedure are given. The Control Number, Shareholder Reference and PIN as printed on the Form of Proxy will be required in order to use the electronic proxy appointment system. This website is operated by Computershare Investor Services PLC. The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by Computershare Investor Services PLC not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. If you want to appoint more than one proxy electronically please contact Computershare Investor Services PLC on 0370 889 4088.
5. Investors holding shares in the Company through the F&C Private Investor, or Children's Investment Plans, the F&C Child Trust Fund, Junior ISA or in an F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 12 noon on 20 July 2017. Alternatively, voting directions can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN as printed on the form of direction. Voting directions must be submitted electronically no later than 12 noon on 20 July 2017.
6. Any person receiving a copy of this notice as a person nominated by a member to enjoy information rights under section 146 of the Act (a "Nominated Person") should note that the provisions in notes 1, 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
7. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Act, the Company has specified that only those members registered on the register of members of the Company at 11 p.m. on 25 July 2017 (the "Specified Time") (or, if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 11 p.m. on the day which is two days prior to the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by the latest time(s) for receipt of proxy appointments specified in notes 4 and 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
13. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    (a) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the meeting; or
    (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act.
14. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a

website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

15. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. However, members should note that no answer need be given in the following circumstances:
    (a) if to do so would interfere unduly with the preparation of the meeting or would involve a disclosure of confidential information;
    (b) if the answer has already been given on a website in the form of an answer to a question; or
    (c) if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
16. As at 14 June 2017, being the latest practicable date before the publication of this notice, the Company's issued capital consisted of 57,417,074 ordinary shares of 25 pence each carrying one vote each. Therefore, the total voting rights in the Company as at 14 June 2017 were 57,417,074. No shares are held in Treasury.
17. This notice, together with information about the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 14 June 2017 being the latest practicable date prior to the printing of this notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.fandcglobalsmallers.com.
18. Copies of the letters of appointment between the Company and its Directors; a copy of the Articles of Association of the Company; the register of Directors' holdings; and a deed poll relating to Directors' indemnities will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Bank Holidays excluded) until the date of the meeting and also on the date and at the place of the meeting from 15 minutes prior to the commencement of the meeting to the conclusion thereof.
19. No Director has a service agreement with the Company.
20. Under sections 338 and 338A of the Act, members meeting the threshold requirements in those sections have the right to require the Company:
    (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or
    (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.
21. Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 14 June 2017, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Information for Shareholders

Net asset value and share price

The Company's net asset value is released daily, on the working day following the calculation date, to the London Stock Exchange. The current share price of F&C Global Smaller Companies PLC is shown in the investment trust section of the stock market page in most leading newspapers, usually under "F&C Global Smaller Cos".

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in December and June respectively. More up-to-date performance information is available on the Internet at www.fandcglobalsmallers.com under "Investor Information". The F&C website (at www.fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Lead Manager.

UK capital gains tax

The calculation of the tax on chargeable gains will depend on your personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Dividend

The final dividend of 8.25 pence per share is payable on 11 August 2017. The record date for the dividend is 14 July 2017 and the ex-dividend date for the dividend is 13 July 2017.

Dividend tax allowance

From April 2016 dividend tax credits have been replaced by an annual £5,000 tax-free allowance to UK residents on dividend income across an individual's entire share portfolio. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of the dividends it has paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholders responsibility to include all dividend income when calculating any tax liability.

Association of Investment Companies ("AIC")

F&C Global Smaller Companies PLC is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk.

Unclaimed dividends

The Company has engaged the services of Georgeson (a subsidiary of Computershare) to locate shareholders, or their beneficiaries, who have lost track of or are unaware of their investments. The service is provided at no cost to the Company; Georgeson retain 10% of unclaimed dividends from the shareholder on completion of each successful claim. Alternatively, shareholders are given the option of contacting the Registrar themselves, thereby incurring no charges.

Common reporting standards

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

All new shareholders, excluding those whose shares are held in CREST, will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders www.gov.uk/government/publications/exchange-of-information-account-holders.

Registered in England and Wales with Company Registration No. 28264

How to Invest

One of the most convenient ways to invest in F&C Global Smaller Companies PLC is through one of the savings plans run by F&C Investments.

F&C Investment Trust ISA

You can use your ISA allowance to make an annual tax-efficient investment of up to £20,000 for the 2017/18 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits.

F&C Junior ISA (JISA)*

You can invest up to £4,128 for the tax year 2017/18 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA.

F&C Child Trust Fund (CTF)*

If your child has a CTF you can invest up to £4,128 for the 2017/18 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

F&C Private Investor Plan (PIP)

This is a flexible way to invest in our range of Investment Trusts. There are no maximum contributions, and investments can be made from £500 lump sum or £50 a month per Trust. You can also make additional lump sum top-ups at any time from £250 per Trust.

F&C Children's Investment Plan (CIP)

This is a flexible way to save for a child in our range of Investment Trusts. There are no maximum contributions, and the plan can easily be set up under bare trust (where the child is noted as the beneficial owner) or kept in your name if you wish to retain control over the investment. Investments can be made from a £250 lump sum or £25 a month per Trust. You can also make additional lump sum top-ups at any time from £100 per Trust.

*The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18. **Calls may be recorded or monitored for training and quality purposes.

CHARGES

Annual management charges and other charges apply according to the type of plan.

ANNUAL ACCOUNT CHARGE

ISA: £60+VAT

PIP: £40+VAT

JISA/CIP/CTF: £25+VAT

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits)

Dealing charge per holding

ISA: 0.2%

PIP/CIP/JISA: postal instructions £12, online instruction £8 per Trust.

Dealing charges apply when shares are bought or sold but not on the reinvestment of dividends or the investment of monthly direct debits for the PIP, CIP and JISA.

There are no dealing charges on a CTF but a switching charge of £25 applies if more than 2 switches are carried out in one year.

Government stamp duty of 0.5% also applies on the purchase of shares (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan.

For full details of our savings plans and charges, please read the Key Features and Terms and Conditions of the plan – available on our website fandc.co.uk.

HOW TO INVEST

To open a new F&C savings plan, apply online at fandc.com/apply

Note, this is not available if you are transferring an existing plan with another provider to F&C, or if you are applying for a new plan in more than one name.

New Customers:

Call: **0800 136 420****
(8:30am – 5:30pm, weekdays)

Email: **info@fandc.com**

Existing Plan Holders:

Call: **0345 600 3030****
(9:00am – 5:00pm, weekdays)

Email: **investor.enquiries@fandc.com**

By post: **F&C Plan Administration Centre**
PO Box 11114
Chelmsford CM99 2DG

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include: Alliance Trust Savings, Barclays Stockbrokers, Halifax, Hargreaves Lansdown, HSBC, Interactive Investor, Lloyds Bank, Selftrade, TD Direct Investing, The Share Centre.

The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please read our Key Features Document before you invest and this can be found on our website fandc.co.uk. F&C cannot give advice on the suitability of investing in our investment trust or savings plans. If you have any doubt as to the suitability of an investment, please contact a professional financial adviser.

BMO | A part of BMO Financial Group

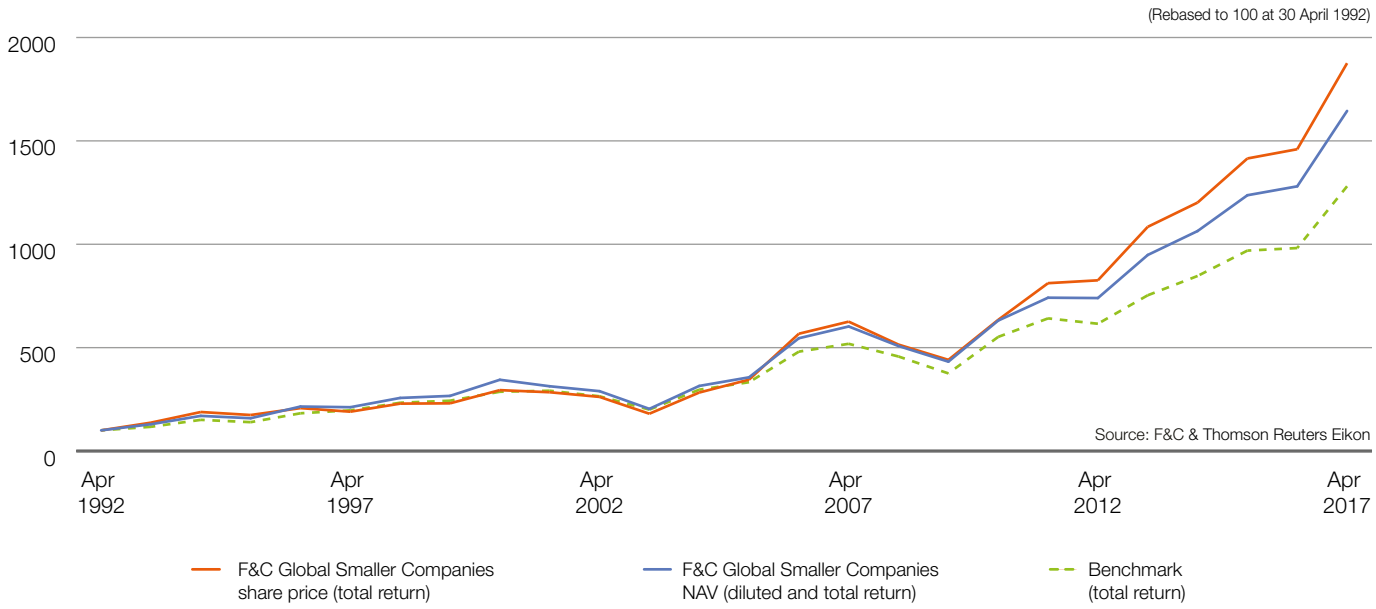
25 Year Historical Information (unaudited)

All data is based on figures as reported in accordance with the Company's accounting policies and is unaudited but derived from the audited Accounts.

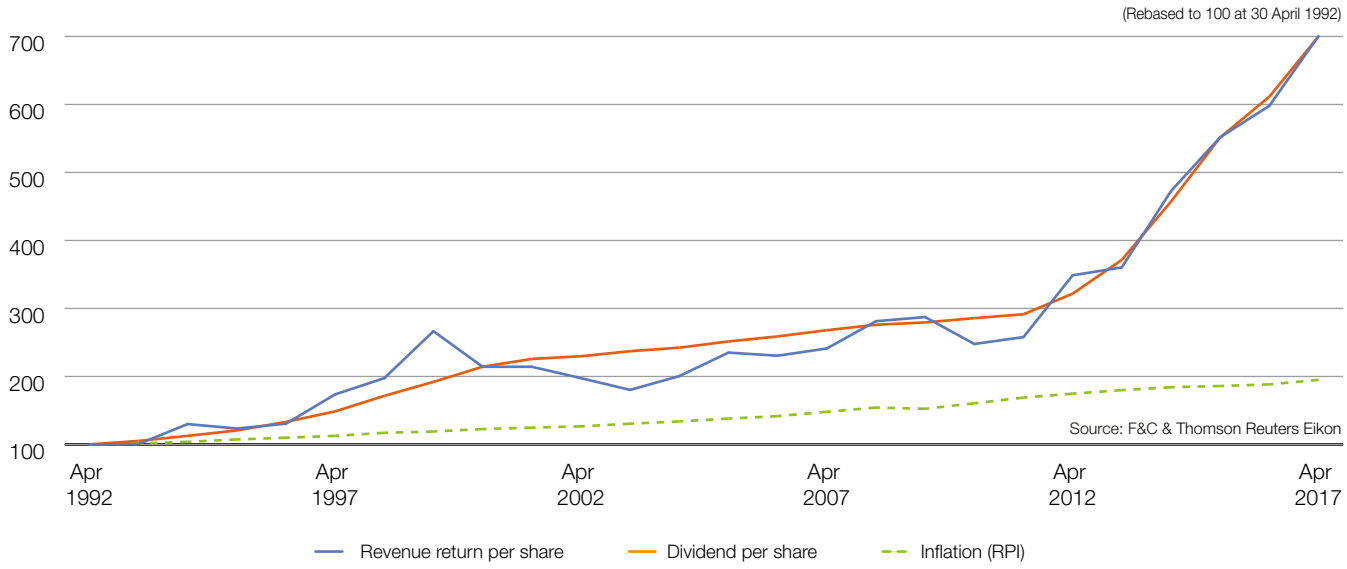
at 30 April	Net assets £'000s	Net asset value per share pence	Closing share price pence	Premium/ (discount) %	Revenue return per share pence	Dividend per share pence	Dividend growth %	Inflation (RPI)
1992	95,676	107.3	99.5	(7.3)	1.97	1.75	6.1	4.3
1993	121,346	136.1	133.5	(1.9)	1.98	1.84	5.1	1.3
1994	184,067	175.8	181.5	3.2	2.56	1.97	7.1	2.6
1995	169,274	161.6	164.5	1.8	2.43	2.11	7.1	3.3
1996	226,938	216.7	193.5	(10.7)	2.57	2.33	10.4	2.4
1997	219,388	209.5	174.5	(16.7)	3.42	2.60	11.6	2.4
1998	261,706	249.9	206.3	(17.4)	3.89	3.00	15.4	4.0
1999	265,440	255.3	203.5	(20.3)	5.25	3.36	12.0	1.6
2000	313,128	325.4	255.3	(21.5)	4.22	3.75	11.6	3.0
2001	274,930	291.9	242.5	(16.9)	4.22	3.95	5.3	1.8
2002	246,300	265.5	219.0	(17.5)	3.89	4.02	1.8	1.5
2003	167,945	183.1	147.0	(19.7)	3.55	4.15	3.2	3.1
2004	235,390	276.8	224.0	(19.1)	3.95	4.24	2.2	2.5
2005	264,398	311.3	268.5	(13.7)	4.63	4.40	3.8	3.2
2006	227,652	470.8	435.0	(7.6)	4.54	4.53(1)	3.0	2.6
2007	239,574	512.2	473.3	(7.6)	4.75	4.69	3.5	4.5
2008	188,100	428.2	385.0	(8.6)	5.54	4.83	3.0	4.2
2009	150,994	360.2	325.0	(7.4)	5.66	4.89	1.2	(1.2)
2010	208,384	518.1	461.0	(9.6)	4.88	5.00	2.2	5.3
2011	241,604	602.5	583.5	(2.1)	5.08	5.10	2.0	5.2
2012	246,776	596.4	588.0	(0.4)	6.87	5.63	10.4	3.5
2013	340,090	756.2	764.5	1.6	7.10	6.50	15.5	2.9
2014	431,086	841.8	840.0	(0.1)	9.31	8.00	23.1	2.5
2015	516,963	970.3(2)	980.0	1.0	10.87(2)	9.65	20.6	0.9
2016	553,192	994.5(2)	1,001.0	0.7	11.78(2)	10.70	10.9	1.3
2017	733,282	1,263.5(2)	1,273.0	0.8	13.80(2)	12.25	14.5	3.5

(1) Excludes special dividend of 1p also paid
(2) Diluted figures

Net asset value and share price information vs Benchmark over 25 years



Revenue return and dividend per share vs inflation over 25 years



Management and Advisers

The Management Company
F&C Global Smaller Companies PLC (the "**Company**") is managed by F&C Investment Business Limited ("**FCIB**" or the "**Manager**"), a wholly-owned subsidiary of F&C Asset Management Group ("**F&C**") which is ultimately owned by Bank of Montreal ("**BMO**"). FCIB is appointed under a management agreement with the Company, setting out its responsibilities for investment management, administration and marketing. As Manager, it is authorised and regulated in the UK by the Financial Conduct Authority.

The Manager also acts as the Alternative Investment Fund Manager ("**AIFM**") under the AIFMD.

Peter Ewins, Lead Manager: Responsible for the UK equity portfolio, selection of collective funds for Japan, Asia, Emerging Markets and overall asset allocation. He joined F&C in 1996.

Nish Patel: Responsible for the US portfolio. He joined F&C in 2007.

Sam Cosh: Responsible for the European portfolio. He joined F&C in 2010.

Jan Baker: Represents the Manager as Company Secretary and is responsible for the Company's statutory compliance. She joined F&C in 2005.

Marrack Tonkin: Head of Investment Trusts of F&C Asset Management plc. He has responsibility for F&C's relationship with the Company. He joined F&C in 1989.

Secretary and Company's Registered Office
F&C Investment Business Limited, Exchange House, Primrose Street, London EC2A 2NY

Telephone:	020 7628 8000
Facsimile:	020 7628 8188
Website:	www.fandc.com
Email:	info@fandc.com

Independent Auditors
PricewaterhouseCoopers LLP ("**PwC**" or the "**auditors**"), 7 More London Riverside, London SE1 2RT

Custodian
JPMorgan Chase Bank (the "**Custodian**"), 25 Bank Street, Canary Wharf, London E14 5JP

Depositary
JPMorgan Europe Limited (the "**Depositary**"), 25 Bank Street, Canary Wharf, London E14 5JP

Share Registrars
Computershare Investor Services PLC (the "**Registrar**"), The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
Telephone: 0370 889 4088
Authorised and regulated in the UK by the Financial Conduct Authority.

Solicitors
Dickson Minto WS, Broadgate Tower, 20 Primrose Street, London EC2A 2EW

Stockbrokers
Stifel Nicolaus Europe Limited, 150 Cheapside, London EC2V 6ET

Trustee for CULS holders
The Law Debenture Trust Corporation plc
Fifth Floor, 100 Wood Street, London EC2V 7EX

Glossary of Terms

AAF Report – Report prepared in accordance with Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

Administrator – The administrator is State Street Bank and Trust Company to which F&C has outsourced trade processing, valuation and middle office tasks and systems.

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles ("AIFs") in the European Union, including Investment Trusts, must appoint a Depositary and an Alternative Investment Fund Manager ("AIFM"). The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations. The Company's AIFM is F&C Investment Business Limited ("FCIB"), a wholly-owned subsidiary of F&C Asset Management plc and ultimately BMO.

BMO – Bank of Montreal, which is the ultimate parent company of F&C

Benchmark – a blend of two Indices, namely the MSCI All Country World ex UK Small Cap Index (70%) and the Numis UK Smaller Companies (ex investment companies) Index (30%). This Benchmark, against which the increase or decrease in the Company's net asset value is measured, measures the performance of a defined selection of smaller companies listed in stock markets around the world and gives an indication of how those companies have performed in any period. Divergence between the performance of the Company and the Benchmark is to be expected as: the investments within this Index are not identical to those of the Company; the Index does not take account of operating costs; and the Company's strategy does not entail replicating (tracking) this Benchmark.

Closed-end company – a company, including an Investment Company, with a fixed issued ordinary share capital the shares of which are traded on an exchange at a price not necessarily related to the net asset value of the company and which can only be issued or bought back by the company in certain circumstances.

CULS – 3.5% Convertible Unsecured Loan Stock 2019 – issued in July 2014 and listed on the London Stock Exchange. The CULS can be bought and sold on the LSE and can be converted at specified dates into the Company's ordinary shares. See note 14 on the accounts.

Cum-dividend – shares are classified as cum-dividend when the buyer of a security is entitled to receive a dividend that has been declared, but not paid. Shares which are not cum-dividend are described as ex-dividend.

Custodian – JP Morgan Chase Bank is a financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services.

Depositary – The Depositary is JPMorgan Europe Limited. Under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under the AIFMD rules, the Depositary has strict liability for the loss of the Company's financial assets in respect of which it has safe–keeping duties. The Depositary's oversight duties will include but are not limited to oversight of share buybacks, dividend payments and adherence to investment limits.

Diluted Net Asset Value – assumes that the CULS are converted into ordinary shares at the rate of 977.697 pence per £1 nominal CULS value (see "Net Asset Value" and note 21 on the accounts).

Discount/Premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to NAV per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per

share, the shares are trading at a discount. Shares trading at a price above NAV per share are said to be at a premium. The Board of the Company tries to ensure that the shares trade, in normal market conditions, at around the value of the net assets. This is done by means of buying shares from sellers at the below-NAV price (and placing them in Treasury or cancelling them) or selling new shares to shareholders at a premium to NAV.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital (see notes 2, 17, 18 and 20 on the accounts). Company Law requires that Share Capital and the Capital Redemption Reserve may not be distributed. The Company's articles of association allow distributions by way of dividend out of Capital Reserves. Dividend payments are currently made out of Revenue Reserve. The cost of all share buybacks is deducted from Capital Reserves.

Dividend Dates – Reference is made in announcements of dividends to three dates. The "record" date is the date after which buyers of the shares will not be recorded on the register of shareholders as qualifying for the pending dividend payment. The "payment" date is the date that dividends are credited to shareholders' bank accounts. The "ex-dividend" date is normally the business day prior to the record date (most ex-dividend dates are on a Thursday).

F&C – F&C Asset Management plc and its subsidiaries (including the Manager).

F&C savings plans – the F&C Private Investor Plan, F&C Children's Investment Plan, F&C Investment Trust ISA, F&C Junior ISA and F&C Child Trust Fund operated by F&C Management Limited, a company authorised by the Financial Conduct Authority.

GAAP – Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union).

Gearing – this is the ratio of the borrowings of the Company to its net assets. Borrowings have a "prior charge" over the assets of a company, ranking before ordinary shareholders in their entitlement to capital and/or income. They include: CULS; preference shares; debentures; overdrafts and short and long-term loans from banks; and derivative contracts. If the Company has cash assets, these may be assumed either to net off against borrowings, giving a "net" or "effective" gearing percentage, or to be used to buy investments, giving a "gross" or "fully invested" gearing figure. Where cash assets exceed borrowings, the Company is described as having "net cash". The Company's maximum permitted level of gearing is set by the Board and is described within the Strategic Report and Directors' Report.

Investment Company (Section 833) – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made Capital losses in any year, provided the Company's assets remaining after payment of the dividend exceed 150% of the liabilities. An Investment Company is defined as investing its funds in shares, land or other assets with the aim of spreading investment risk.

Investment Trust taxation status (Section 1158) – UK Corporation Tax law allows an Investment Company (referred to in Tax law as an Investment Trust) to be exempted from tax on its profits realised on investment transactions, provided it complies with certain rules. These are similar to Section 833 Company law rules but further require that the Company must be listed on a regulated stock exchange and that it cannot retain more than 15% of income received. The Directors Report contains confirmation of the Company's compliance with this law and its consequent exemption from taxation on capital gains.

Leverage – as defined under AIFMD rules, leverage is any method by which the exposure of an AIF (being an investment vehicle under the AIFMD) is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Manager (AIFM) – F&C Investment Business Limited ("FCIB"), a subsidiary of F&C Asset Management plc, which in turn is wholly owned by the Bank of Montreal Group ("BMO"). The responsibilities and remuneration of FCIB are set out in the Business Model, Directors' Report and note 4 on the accounts.

Net asset value (NAV) – the assets less liabilities of the Company, as set out in the Balance Sheet, all valued in accordance with the Company's Accounting Policies (see note 2 on the accounts) and UK Accounting Standards. The net assets correspond to Total Shareholders' Funds, which comprise the share capital account, capital redemption reserve, CULS reserve and capital and revenue reserves.

Non-executive Director – a Director who has a contract for services, rather than a contract of employment, with the Company. The Company does not have any executive Directors. Non-executive Directors' remuneration is described in detail in the Remuneration Report. The duties of the Directors, who govern the Company through the auspices of a Board and Committees of the Board, are set out in the Corporate Governance Statement.

Ongoing Charges – all operating costs expected to be regularly incurred and that are payable by the Company or suffered within underlying investee fund, expressed as a proportion of the average net assets of the Company over the reporting year (see Ten Year Record). The costs of buying and selling investments and derivatives are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares.

Open-ended Fund – a collective investment scheme which issues shares or units directly to investors, and redeems directly from investors, at a price that is linked to the net asset value of the fund.

SORP – Statement of Recommended Practice. The accounts of the Company are drawn up in accordance with the Investment Trust SORP, issued by the AIC, as described in note 2 on the accounts.

Special Dividends – dividends received from investee companies which have been paid out of capital reconstructions or reorganisations of the investees are sometimes referred to as Special Dividends and may be allocated to Capital Reserves in accordance with the Company's accounting policies and the SORP. Dividends which are unusually large in terms of the investee companies' annual earnings or normal payment pattern are also sometimes referred to as special but are treated as revenue in nature unless the evidence suggests otherwise.

Total expense ratio (TER) – an alternative measure of expenses to Ongoing Charges. It comprises all operating costs incurred in the reporting period by the Company, calculated as a percentage of the average net assets in that year (see Ten Year Record). Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments and derivatives, interest costs, taxation and the costs of buying back or issuing ordinary shares.

Total return – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV in the period. The dividends are assumed to have been re-invested in the form of shares or net assets, respectively, on the date on which the shares were quoted ex-dividend.

Trust Deed – the trust deed between the Company and the Trustee constituting the CULS.

Trustee – The Law Debenture Trust Corporation plc.

UK Code of Corporate Governance (UK Code) – the standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders that all companies with a Premium Listing on the London Stock Exchange are required to report on in their annual report and accounts.

Warning to shareholders – Beware of Share Fraud.

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register from **www.fca.org.uk** to see if the person or firm contacting you is authorised by the FCA
- Call the Financial Conduct Authority ("FCA") on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

F&C Global Smaller Companies PLC

REPORT AND ACCOUNTS 2017

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