F&C Global Smaller Companies PLC

REPORT AND ACCOUNTS 2018

F&C Investments

Contents

Financial Calendar	
Annual General Meeting	26 July 2018
Final dividend payable(1)	8 August 2018
Half-yearly results for 2019 announced	December 2018
Interim dividend payable	January 2019
Final Results for 2019 announced	June 2019

(1) To shareholders on the register at the close of business on 13 July 2018

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 Convertible Unsecured Loan Stock 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.

Registered in England and Wales with company registration number 28264.

Company Overview

F&C Global Smaller Companies has operated as an investment trust since 1889 and will mark its 130th anniversary in 2019.

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

While historically returns have been strong for investors in smaller companies, we do recognise the particular risks inherent in selecting stocks from this part of the market. Our approach is to invest in a wide range of smaller quoted companies and funds to offer a globally diversified portfolio, reducing the risk of overexposure to any one company, market, currency or industry.

This will be the Company's 48th year of consecutive dividend growth. By focusing on companies with the potential for 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

Financial highlights

9.3%

Diluted Net Asset Value[1] ("NAV") total return[2] of 9.3% beat the Benchmark return of 7.9%
The diluted NAV rose to 1,368.80p from 1,263.52p.

9.1%

Share price total return[2] of 9.1%
The share price rose for the ninth consecutive year ending at 1,375p.

14.40p

Dividend[3] of 14.40 pence
48th consecutive annual increase, up by 17.6%.

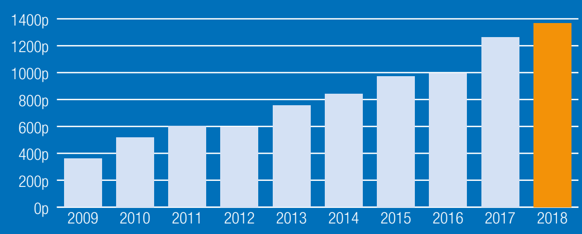
0.5%

Shares ended the year at a premium[4] of 0.5%
For most of the year the share price traded at a premium to the diluted NAV.

Delivering long-term growth in capital

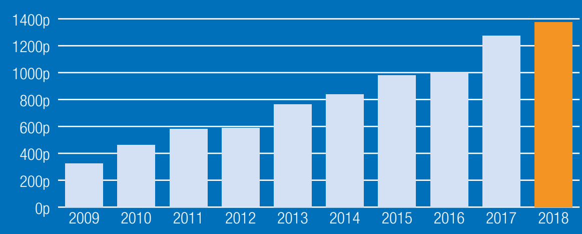
In the last ten years F&C Global Smaller Companies has turned a £1,000 investment, with dividends reinvested, into £3,974 compared with £3,024 from the Company's Benchmark.

Diluted net asset value[1] per share at 30 April – pence



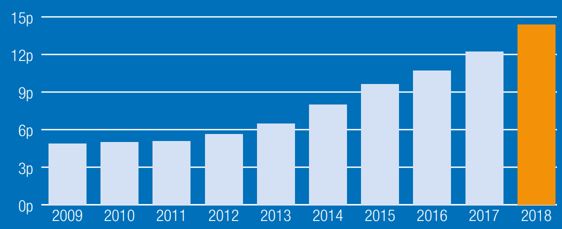
Source: F&C

Mid-market price per share at 30 April – pence



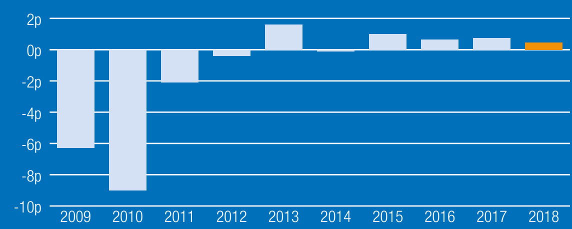
Source: F&C

Dividends[3] – pence per share



Source: F&C

Share price premium/discount[4] at 30 April – %



Source: F&C

The dividend has increased every year for the past 48 years and over the last ten years is up 11.5% compound per annum, compared with inflation of 2.7% compound per annum.

Potential investors are reminded that the value of investments and the income from dividends 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.

(1) Diluted Net Asset Value. See Alternative Performance Measures on page 85
(2) Total return. See Alternative Performance Measures on page 85
(3) The final dividend for 2018 is subject to shareholder approval at the Annual General Meeting
(4) Premium/discount – see Alternative Performance Measures on page 85

Chairman's Statement

Anthony Townsend, Chairman

I am pleased to report another year of solid progress for your Company.

While geo-political developments continued to create dilemmas for investors over the last year, equity markets recorded advances across the board helped by an acceleration in the global economy. For the first time since the global financial crisis all the major economic blocs are exhibiting decent levels of growth. Better economic growth however, has led to a pick-up in inflationary pressures in some countries. Rising yields in the US government bond market amid a tightening labour market in the country, combined with renewed trade tensions between the US and China, led to some volatility in financial markets in the second half of the year.

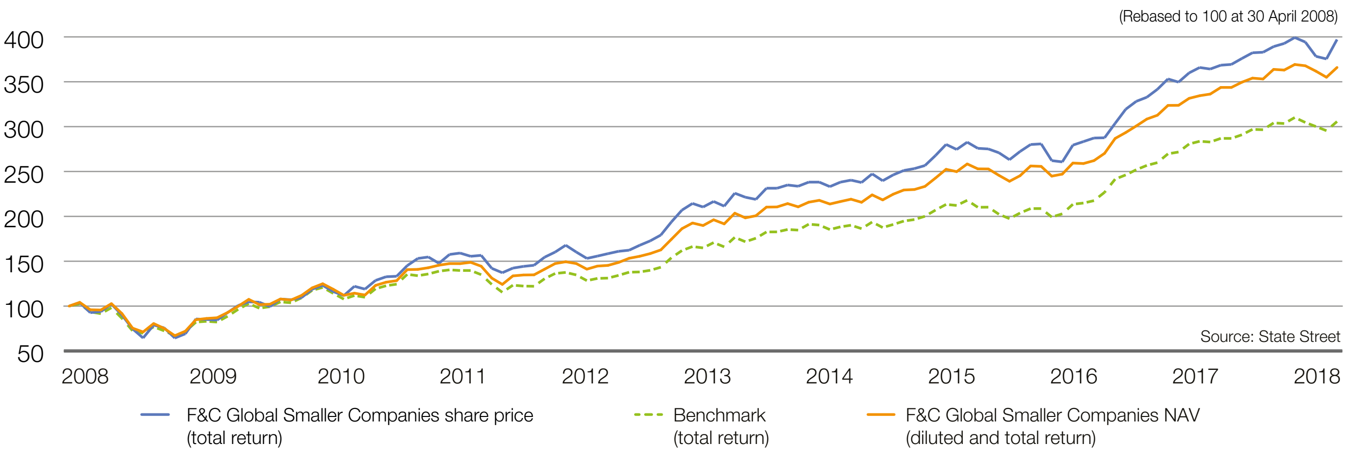
Smaller company share price returns were slightly lower than those from larger stocks in the US and UK markets. This pattern was reversed in Japan and more materially so in Europe, where the economic recovery and stronger euro tended to favour lower market capitalisation companies. The diluted Net Asset Value ("**NAV**") rose to 1,368.80p, delivering a total return of 9.3%, beating the Benchmark return of 7.9%. In both cases the bulk of the returns were made in the first half of the year.

The Company's Benchmark is a blend of the returns from two indices, the MSCI All Country World ex UK Small Cap Index and the Numis UK Smaller Companies Index in a 70/30% proportion. This has provided a fair measure to assess the investment portfolio performance against while around 30% of the Company's assets have been invested in the UK. With a larger proportion of the investment portfolio likely to be invested outside of the UK in the medium term as global markets continue to evolve, the Board will continue to keep the make-up of the Benchmark under review.

With the shares standing at a premium for much of the year and following conversion requests from Convertible Unsecured Loan Stock ("**CULS**") holders, nearly 2.6 million new shares were issued in the twelve months. The share price ended the year up 8.0% at 1375p (with a total return for the year of 9.1%) and stood at a 0.5% premium to the diluted NAV versus the 0.8% premium a year earlier. The shares have traded at a discount from time to time in recent months, particularly when markets have been under pressure. The Board is keen to reiterate to shareholders that if necessary, it will utilise its shareholder authority to buy back shares to control the discount. This is of course, subject to continued shareholder approval at the AGM.

Long term returns remain strong. Shareholders who had been invested for the last 10 years and who had re-invested dividends

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



would have received a compound annual return in share price terms of 14.8% versus the Benchmark return of 11.7%. Of course, there is no guarantee that such returns will be repeatable looking forward, but reflecting the strong returns over recent years and regular share issuance, it's pleasing to report that the Company achieved the scale of market capitalisation to qualify for inclusion in the FTSE 250 Index.

Costs

Ongoing charges for the year edged down to 0.83% (2017: 0.84%) excluding performance fees and were 0.83% (2017: 0.86%) including performance fees. In the last year the collective funds that we invest in did not earn performance fees. Following the change to the management fee arrangements in 2016, we no longer pay a performance fee to the Manager, FCIB.

Dividends

For many years investment income has grown steadily on an underlying basis, indicative of a healthy investment portfolio and the Manager's focus on profit-making companies. This year revenue returns per share rose by 15.4% despite a headwind from a weaker dollar which reduced the sterling value of dollar derived income. The Board is consequently recommending a final dividend payment of 10.00p per share, up 21.2% on last year's payment, making a total dividend for the year of 14.40p per share, up 17.6%. This will be the 48th consecutive year of growth, and the seventh year in a row of double digit percentage increases. The final dividend will be paid on 8 August 2018 to shareholders on the register on 13 July 2018.

Market and regional portfolio performance

All parts of the fund delivered positive returns but the stand-out positive as highlighted in the bar chart below, was the strength of performance of the UK portfolio. This delivered the best return despite the UK small cap market lagging most of the other global small cap indices. The Manager once again managed to identify a number of strong performers in the domestic market and avoided several high profile corporate casualties.

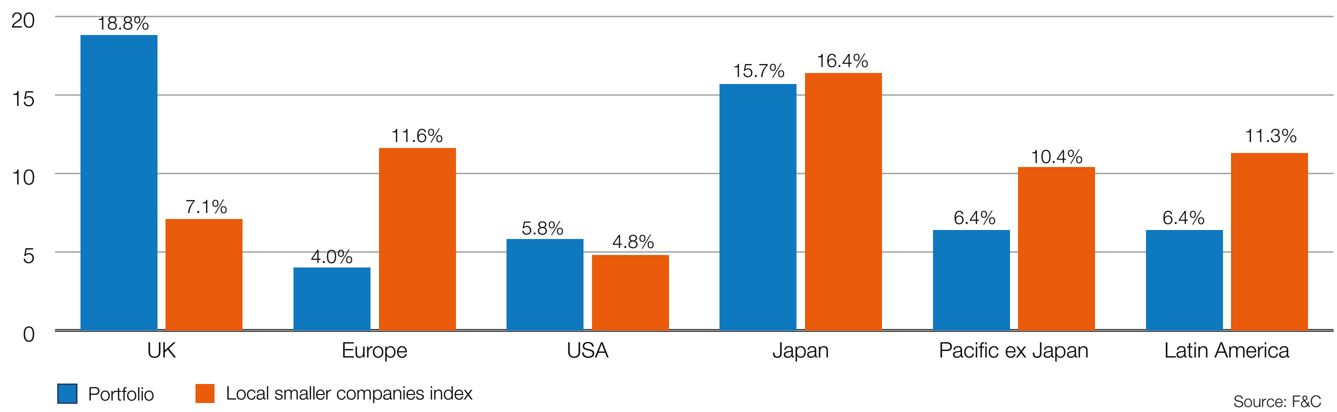
Our US portfolio also outperformed, albeit by a less significant margin. In 2016/17 the US small cap market had been the best performer in market terms, but in the last year it delivered more modest returns. This was in spite of the benefit to future US corporate earnings resulting from the reduction in corporate tax rates approved in December 2017. Currency movements always have an impact and this year the dollar lost 6.1% against sterling, which held back the sterling performance from both the US portfolio and market. Rising US interest rates during the year also impacted some parts of the local market.

In the other markets, the portfolio performance ended the year behind the relevant comparative small cap indices. European small cap shares did well in the early part of the year as the Continent's economy picked up pace, the French Presidential result boosted sentiment and the euro rose. Later on, the problems in Catalonia and the more recent inconclusive German and Italian election results, led to something of a reverse. Our performance in Europe fell well short of the return from the European small cap index with a number of holdings failing to meet the investment team's expectations.

A feature of recent times has been the better performance of Japanese smaller company equities. This continued in the past year with our portfolio almost matching the mid-teens percentage return from the MSCI Japan Small Cap Index. While GDP growth is never likely to be dynamic given the country's demographic headwind, many small cap companies nevertheless produced strong earnings growth.

The other Asian markets also delivered solid returns in the year, though late in the period renewed concerns surrounding US trade policy in relation to China had a negative impact. Sectors and companies dependent on the US for a large proportion of their revenue were understandably under pressure. Although of less significance to the Trust in terms of exposure, returns from Latin American markets were helped by generally stronger commodity prices and lower interest rates in Brazil. Our Rest of World portfolio lagged both the Asian and Latin American small cap indices in the

Geographical performance (total return sterling adjusted) for the year ended 30 April 2018



Source: F&C

year. Performance across the funds we hold for exposure to these markets was mixed, with widening discounts on two investment trust holdings unhelpful.

Further details on the background to performance on a market by market basis is contained in the Manager's Review on pages 16 to 23.

Asset Allocation

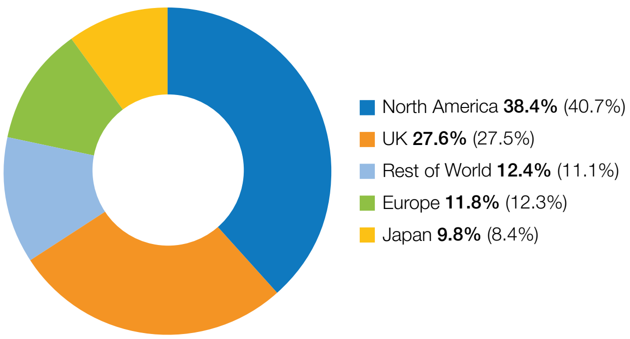
The pie chart below and the table opposite illustrate the geographic allocation of the investment portfolio. Over the year the Manager chose to remain underweight in the UK given concerns around the domestic economic outlook and political risks surrounding the Brexit process. We remained overweight in Europe, where the improving macro-economic picture was felt to be likely to help company profits and market performance. Exposure to the US was reduced on valuation grounds in favour of additions to the Japanese and Asian markets. The overall impact of the geographic market positioning versus the Benchmark was modestly positive over the year.

Gearing

The Board believes that using borrowings on an ongoing and structural basis will be beneficial to long term returns for investors as markets appreciate over time. Around half of the original CULS has converted into equity and therefore use is now being made of the £30m Revolving Credit Facility put in place last Summer. At the end of April, £24m of this facility had been drawn down in sterling at a blended current cost of approximately 1.3%. Taking account of the residual CULS and netting off cash in hand, effective gearing ended the period at 5.1% compared to 5.0% at the half year stage.

The Board continues to review alternative options in relation to borrowing facilities with only just over a year to run with the existing CULS issue.

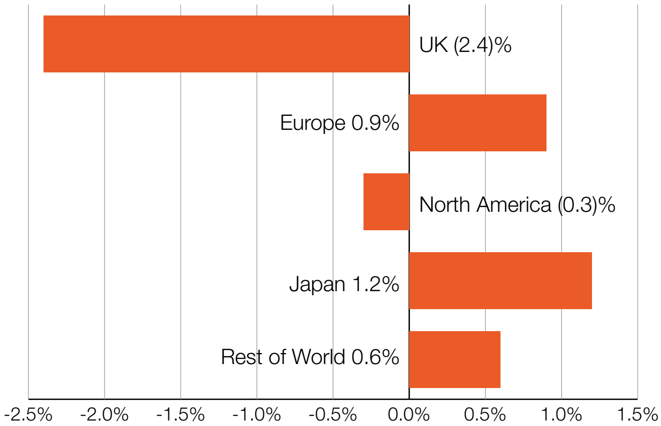
Geographical distribution of the investment portfolio as at 30 April 2018



The percentages in brackets are as at 30 April 2017

Source: F&C

Geographical weightings against Benchmark as at 30 April 2018



Source: F&C & MSCI

The Board

There have been no changes to the composition of the Board during the year and all Directors will stand for re-election by shareholders at the Annual General Meeting.

During the year, the Board performed an evaluation of the Chairman, all Directors, the Committees and the working of the Board as a whole. While it was concluded that all aspects of the Board's activities were operating effectively and that all Directors make an effective contribution to the running of the Company, it was recognised that three of the Directors have served for over nine years. Discussions have therefore commenced as to the need for a structured and orderly succession plan for the Directors. While this plan is being developed and implemented, the Board has concluded that none of the current Directors' independence has been impaired by length of service.

Annual General Meeting

The Annual General Meeting of the Company will revert to the Chartered Accountants Hall, 1 Moorgate Place, London EC2R 6EA on Thursday 26 July 2018 at 12 noon. We hope as many shareholders as possible will attend. The Manager will as usual give a review of the year together with his outlook. A map of the venue is included in the Notice of Annual General Meeting on page 77.

Outlook

Current economic momentum is supportive for markets heading into the new year but as usual, there are many uncertainties looking forward at the macro level both on a global and more local level. Rising bond market yields as Central Bank support from markets is withdrawn is something that could undermine equities, as could further moves on the tariffs front. The lack of clarity surrounding the UK government's negotiating position and objectives in relation to the future customs arrangements with the EU clearly remains a concern as we approach the formal exit in less than a year.

The Manager continues to meet companies across the industrial spectrum, seeking to maintain a portfolio of high quality and prudently financed smaller company stocks. While political risk remains elevated and at some stage a market setback is always possible, the Board remains optimistic for the medium term.

Anthony Townsend
Chairman
19 June 2018

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

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.

Strategic Report

We aim to secure a high total return for our shareholders over the longer term. We do this by selecting well-managed publicly listed smaller companies with growth potential and market capitalisations that fall into the generally accepted local definition of a smaller company. This strategy has produced investment out-performance over the longer term.

Business model

The Directors have a duty to promote the success of the Company. As an investment company with no employees, we believe that the optimum basis for doing this and achieving our objective is a strong working relationship with our appointed Manager, FCIB, a subsidiary of F&C. Within policies set and overseen by the Board of Directors, the Manager has been given overall responsibility for the management of the Company's assets, asset allocation, gearing, stock and sector selection and risk. Engagement on environmental, social and governance ("**ESG**") matters are also undertaken by F&C.

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.

In the year under review, F&C engaged with companies held in the portfolio and had voted at 202 company meetings on a range of ESG issues.

Our appointed Manager 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 26 to 28.

The Board remains responsible for decisions over corporate strategy; corporate governance; risk and control assessment; setting policies detailed on pages 10 and 11; setting limits on gearing and asset allocation; monitoring investment performance; and setting and monitoring marketing budgets.

ESG impact

As the Company has no employees and no premises, the Board has concluded that the direct impact of its activities is minimal. The Company's indirect impact occurs through the large range of organisations and businesses in which it invests. The Company aims to mitigate their impact through the implementation of F&C's Responsible Ownership policy, which encourages investee companies to focus on ESG matters.

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

ESG issues. The statement is available on F&C's website at http://www.bmogam.com/corporate/about-us/responsible/.

Our ESG policies are aligned towards the delivery of sustainable investment performance over the longer term and are set out on page 11.

Manager evaluation

Investment performance and responsible ownership are fundamental to delivering sustainable long-term growth in capital and income for our shareholders and therefore an important responsibility of the Directors is exercising a robust annual evaluation of the Manager's performance. This is an essential part of the strong governance that is carried out by the Board of Directors, all of whom are independent and non-executive.

The process for the evaluation of the Manager for the year under review and the basis on which the decision to reappoint them for another year are set out on pages 33 and 34. FCIB's fee as Manager is based on the net assets of the Company.

Lead Manager and the specialist management teams

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.

Shareholder communication and marketing

We foster good working relationships with our key stakeholders; our Manager, as described above, and our shareholders. 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 shareholder base, we remain focused with our Manager on the optimal delivery of the Company's investment proposition. All available channels are used including the internet and social media as well as the F&C Savings Plans, which remain a cost effective and flexible way to invest in the Company.

Managing risks and opportunities

We look to make good use of our corporate structure and the investment opportunities that lead to long-term growth in capital and income for our shareholders. Like all businesses, these opportunities do not come without risks and uncertainties and so the performance of the Manager is monitored at each Board meeting on a number of levels. In addition to managing the investments, the ancillary functions of administration, secretarial, accounting and marketing services are all carried out by the Manager. They provide reports on the investment portfolios; the wider portfolio structure; risks; compliance with borrowing covenants; income, dividend and expense forecasts; errors; internal control procedures; marketing; shareholder issues, including the Company's share price premium/discount to diluted NAV; and accounting and regulatory updates.

Shareholders can assess our financial performance from the Key Performance Indicators that are set out on page 13 and, on page 14, can see what the Directors consider to be the Principal Risks that we face. The risk of not achieving the Company's objective, or of consistently under-performing the Company's Benchmark or competitors, may arise from any or all of: poor stock selection; inappropriate asset allocation; weak market conditions; ineffective or expensive gearing; poor cost control; loss of assets; and service provider governance issues. In addition to continually monitoring the Manager's performance, their commitment and available resources and their systems and controls, the Directors also review the services provided by other principal suppliers. These include the Custodian and Depositary in their duties towards the safeguarding of the assets.

The policies applied in running the Company are set out in detail on the following page, whilst the Lead Manager's review of activity in the year can be found on page 16. In the light of the Company's strategy, investment processes and control environment (relating to both the oversight of the Company's service providers and the effectiveness of the risk mitigation activities), the Board has set out on page 15 its reasonable expectation that the Company will continue in operation for the next five years.

Policy Summary

Investment
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.

Borrowing
The Company has the flexibility to borrow over the longer term and to use short-term borrowings by way of loans. Borrowings, which can be taken out either in Sterling or foreign currency, would normally be expected to fall within a range of 0–20% of shareholders' funds. The Board believes that structural gearing throughout the investment cycle is appropriate for the enhancement of future shareholder returns.

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 years 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.

Taxation
The Board is fully committed to complying with applicable legislation and statutory guidelines, including the UK's Criminal Finance Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates. The policy is based upon a risk assessment undertaken by the Board and professional advice is sought as and when deemed necessary.

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("**Section 1158**") such that it does not suffer UK Corporation Tax on capital gains; ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due; and ensures that it claims back in a timely manner, where possible, all taxes suffered in excess of taxation treaty rates on non-UK dividend receipts.

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.

Premium/Discount
The Board issues 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.

In the event that the shares revert to trading at a price lower than the NAV, the Board would aim to keep the discount (with the diluted NAV per share excluding current period income) at no more than 5% in normal market conditions. The Board would do this by utilising its shareholder authority to buy back shares.

In either scenario, this strategy has the benefit of enhancing NAV per share for continuing shareholders.

Environmental, Social and Governance (ESG) Policies

In setting the Company's ESG policies, the Board has considered the requirements of Section 172 of the Companies Act 2006 (regarding promoting the success of the Company for the benefit of stakeholders) and the EU Non-Financial Reporting Directive (EU/2014/95). The Board anticipates that its disclosures on ESG matters will evolve in future years.

Responsible ownership

As an investment vehicle, all 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. Neither does it provide goods nor services in the normal course of business and does not have customers. In consequence, it does not directly generate any greenhouse gas or other emissions or pollution and it is not required to make any statement under the Modern Slavery Act 2015.

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 regulatory and ESG 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.

With regard to possible tax evasion by investee companies, the Board believes that it is best in the first instance to engage proactively with companies to ensure high standards of corporate governance rather than exclude investment opportunities on the basis of tax practices. F&C will therefore engage with the boards of investee companies in an effort to ensure that their tax policies are both prudent and sustainable. Investee company boards are expected to disclose to shareholders that they are providing appropriate oversight over their tax policies.

F&C's Corporate Governance Guidelines set out expectations of the boards of investee companies in terms of good corporate governance. This includes the affirmation of responsibility for reviewing internal business ethics systems, and ensuring that there is an effective mechanism for the internal reporting of wrongdoing, whether within the investee company itself, or involving other parties, such as suppliers, customers, contractors or business partners. Under legislation, which is developing globally, there will be scope for more rigorous enforcement of anti-corruption and anti-bribery.

In addition to this, the Board applies a strict anti-bribery and anti-corruption policy insofar as it applies to any directors or employee of F&C or of any other organisation with which the Company conducts business. The Board also ensures that adequate procedures are in place, and followed, in respect of third party appointments, acceptance of gifts and hospitality and similar matters.

Voting on portfolio investments

The Board expects to be informed by the Manager of any sensitive voting issues involving the Company's investments. In the absence of explicit instructions from the Board, the Manager 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.

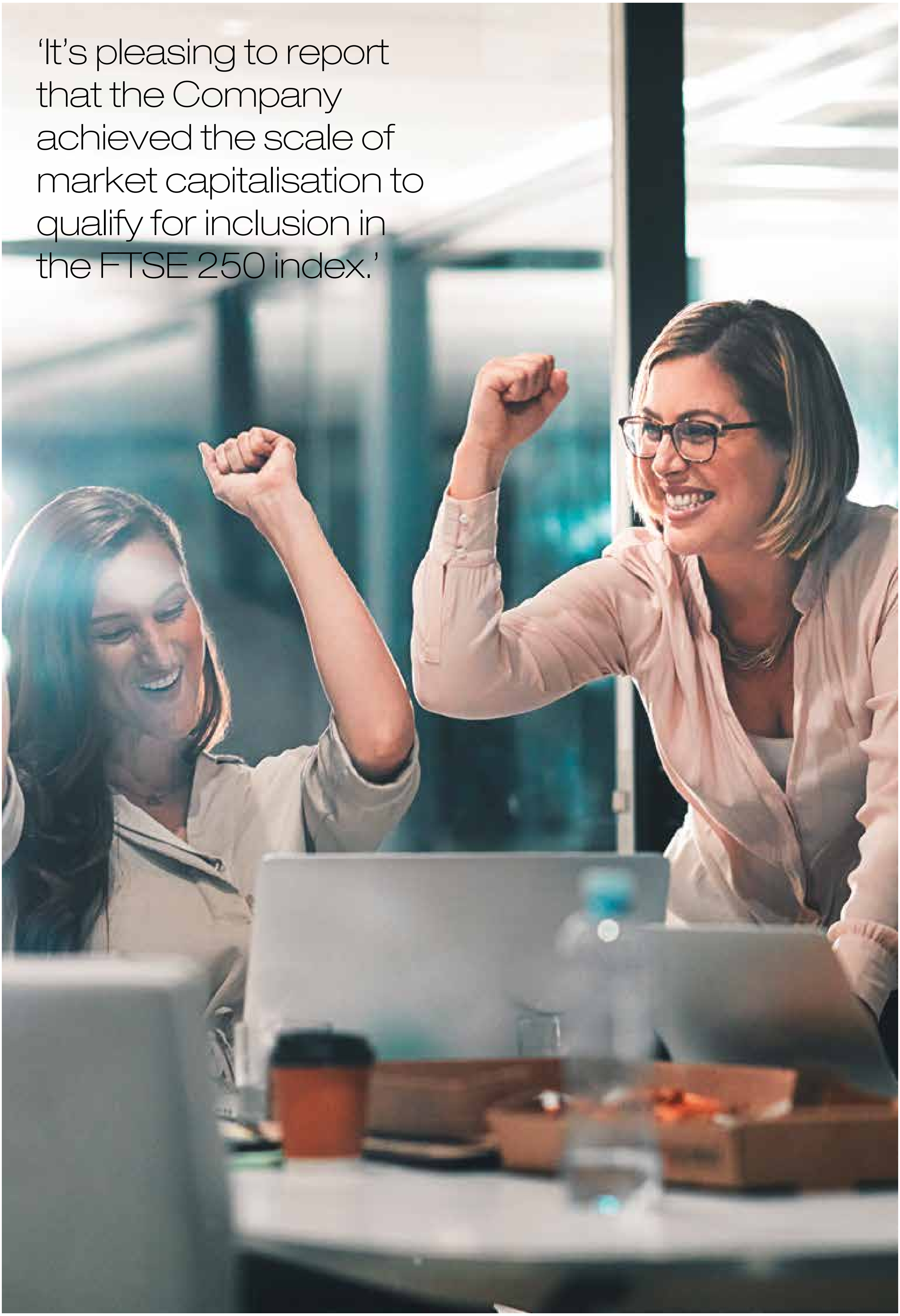
In the year under review, F&C engaged with companies held by the Company and had voted in respect of the Company's holdings at 202 company meetings on a range of issues. In addition to corporate culture and business ethics, key engagement themes during the period focused on management of climate change and natural resource scarcity, as well as on labour standards, governance and remuneration – the latter having been particularly pertinent in the UK where shareholders vote on binding resolutions on corporate pay policies.

Information on F&C's engagement and voting at company meetings and where to find their statement of compliance with The UK Stewardship Code can be found on page 9.

Board diversity

The Board is composed solely of non-executive Directors and has 50% female representation. The Board's approach to the appointment of non-executive directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including gender. The Board will always appoint the best person for the job and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability.

‘It’s pleasing to report that the Company achieved the scale of market capitalisation to qualify for inclusion in the FTSE 250 index.’



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 16. Detailed commentary can be found in the Chairman's Statement and Manager's Review. A 25-year historical record of these indicators (excluding ongoing charges) is shown on pages 82 and 83.

Total return[1] performance

	1 Year %	3 Years %	5 Years %	The Board's policy is to secure a high total return
Company NAV (diluted) total return	9.3	45.2	89.8	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	7.9	42.6	83.5	
Company share price total return	9.1	44.6	88.7	

Source: F&C

Premium/(Discount)[1] (including current period income)

At 30 April	%	The Board's premium/discount policies are to moderate the level of share price premium/discount and related volatility
2018	0.5	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.
2017	0.8	
2016	0.7	
2015	1.0	
2014	(0.1)[2]	

Source: F&C and Thomson Reuters Eikon

Ongoing charges[1] (as a percentage of average net assets)

30 April	% (excluding performance fees)	% (including performance fees)	The Board's policy is to control the costs of running the Company
2018	0.83	0.83	This 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.
2017	0.84	0.86	
2016	0.85	0.85	
2015	0.79	1.08	
2014	0.76	0.78	

Source: F&C

Dividend growth

	1 Year %	3 Years %	5 Years %	The Board aims to continue its progressive dividend policy
Dividends	17.6	49.2	121.5	This compares the Company's dividend growth rate to the rate of inflation.
Retail Prices Index	3.4	8.4	12.1	

Source: F&C and Thomson Reuters Eikon

(1) See Alternative Performance Measures on page 85
(2) Debenture at market value

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 success. 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 42 and 43 and in note 24 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. The risks are unchanged from those reported in the prior 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.

Principal Risks	Mitigation
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. Cyber risks remain heightened. **Unchanged throughout the year under review**	The Board receives regular control reports from F&C covering risk and compliance, including oversight of 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. **The Board also monitors efficiency of service providers' processes**
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 Board assesses investor needs through targeted research and marketing, the effectiveness of which is kept under continuous review. The Manager structures its recruitment and remuneration packages in order to retain key staff and works closely with the Board on any significant management changes. The Manager's appointment can be terminated at six months' notice. **Performance KPIs are monitored by the Board**
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. **The Company's premium/discount is a KPI measured by the Board on an ongoing basis**

Through a series of connected stress tests based on historical information, but forward looking over the five years commencing 1 May 2018, the Board assessed the risks of:

- 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; and
- 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 regularly reviews the Company's risk management framework with the assistance of the Manager. Supervision of third party service providers has been maintained by F&C and includes assurances regarding IT security and increasing cyber threats. The Board received a presentation from the Custodian during the year on its own cyber security controls. 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 engaged with the Manager and Registrar to ensure that the new General Data Protection Regulations are being properly and fully implemented for the safeguarding of all personal data held by the Company.

The Board continually measures the Manager's investment performance against the Key Performance Indicators set out on page 13 and is satisfied that the Manager's long-term performance remains in line with expectations. The Lead Manager's review on pages 16 to 23 explains the changes to the portfolio in the year. Marketing campaigns continued throughout the year, including promotion across financial and other relevant websites and publications.

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.

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 adversely impacted as a direct result of Brexit and other political uncertainties.
- The Company is inherently structured for long-term outperformance, rather than short-term opportunities, with five years considered 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 put in place borrowing arrangements and has the potential to secure additional finance in excess of five years.
- 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
19 June 2018

OVERVIEW
CHAIRMAN'S STATEMENT
STRATEGIC REPORT
GOVERNANCE REPORT
AUDITORS' REPORT
FINANCIAL REPORT
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Manager's Review

Peter Ewins, Lead Manager

This was another year of progress for the portfolio and the NAV beat the Benchmark with a sterling total return of 9.3% compared to 7.9%. While these are lower numbers than in the previous year, equity markets have again delivered returns far in advance of inflation.

Smaller company investing is based around individual company analysis but in the last couple of years geo-political matters have become harder to ignore. What is happening in the US is always important for financial markets and perhaps rarely more so than in the last year. The Trump administration, having failed to achieve its proposed reform of the health system, moved on to push through ambitious changes to corporate and personal taxation in December. Lower tax rates payable by companies with US operations enhanced the near-term earnings outlook, and not just for US listed companies. However, the up-front cost of funding the cuts created some unease in bond markets and investors started to anticipate a more meaningful rise in interest rates. This is coming at a time when the Federal Reserve Bank is also moving to reduce its holdings of Treasury bills.

Higher interest rates are usually not welcomed by equity markets, not least because they will tend to depress profits for companies with debt and increase the competing attraction of holding cash. The fact remains however that interest rates remain low. In most countries they are still well below inflation reducing the incentive for investors to leave money in the bank.

President Trump also acted to impose tariffs on steel and aluminium entering the US, with the target being to reduce the high trade deficit, most critically with China. It is hard to assess how this will eventually play out, and markets will clearly remain sensitive to developments on this front in the coming months.

There have been many other things going on in the world that have influenced the markets; the protracted Brexit process, the threat of a Catalonian break-away from Spain, inconclusive election results in both Germany and Italy, terrorism and the risk of a military conflict with North Korea to name but a few. However, it's easy to over-emphasise the negatives, and the fact is that the global economy has actually been thriving, allowing many companies to deliver record profits. Encouragingly, the expansion has been more balanced between regions and unemployment has been falling almost everywhere.

From a sector stand-point, technology shares have been among the best performers in the markets. The leading internet stocks such as Amazon and Alphabet (the parent of Google), have established incredibly powerful franchises which are disrupting businesses in legacy consumer areas such as retail and media as more and more of our daily business is transacted online. In our engagements with management teams, we try to assess the extent to which companies may be susceptible to disintermediation and pricing pressure going forward, and it's certainly not just consumer orientated companies that need to have a credible approach to online business. One of the advantages that smaller companies have is the ability to take decisions more rapidly than larger, more bureaucratic companies and this is arguably of greater importance nowadays in the rapidly evolving trading environment.

Our technology weighting fell a little as we took some profits in the IT services and semiconductors areas. We have no material exposure to loss-making technology or biotechnology stocks. These stocks are difficult to evaluate and can be somewhat binary in terms of outcome. We took some profits in industrials. Many stocks in this

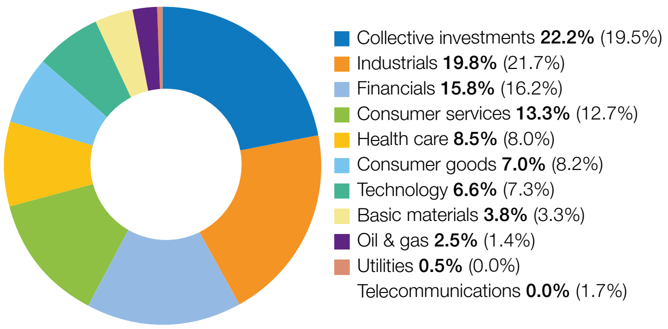
Table of returns

	1 year		3 years		5 years	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK	18.8%	7.1%	58.8%	33.1%	128.1%	73.8%
Europe	4.0%	11.6%	36.2%	56.4%	90.9%	109.9%
North America	5.8%	4.8%	49.1%	47.0%	93.5%	97.2%
Japan	15.7%	16.4%	58.9%	68.6%	106.8%	94.2%
Rest of World*	6.4%	10.4%	23.6%	26.4%	24.3%	41.4%

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

Source F&C, sterling total returns

Industrial classification of the investment portfolio as at 30 April 2018



The percentages in brackets are as at 30 April 2017
Source: F&C

area of the market tend to be cyclical, have performed well and are highly rated with historically extended margins. We remained underweight to real estate within financials. This sector often lags as interest rates rise. By contrast, we added a little to our healthcare exposure, an area where there are some interesting small cap growth stocks to choose from.

We slightly increased our exposure to energy during the year as the oil price recovered. We also took holdings in some US companies supplying services or products into the US onshore market. These appeared to offer better valuation upside compared to US production companies, many of which remain highly financially leveraged. We sold out of several companies in other parts of the portfolio with large borrowings, including two US based telecoms stocks. It is in the US where leverage concerns us the most, with some companies still buying in their own highly priced equity using debt to drive short term earnings accretion.

Coming back to performance, the table on the previous page shows the returns made from the five segments of the portfolio in sterling total return terms. Looking at the last year, returns were positive in all parts of the portfolio and importantly we were ahead of the local small cap indices in the two largest parts of the portfolio, namely North America and the UK. Our performance in Europe and to a lesser extent with the funds that we hold for exposure to the Rest of the World has been disappointing more recently and we will be seeking to do better in the next year.

In terms of asset allocation, there were no major adjustments. We did however feel that US share valuations were looking extended notwithstanding the earnings boost from the corporate tax cut, and therefore the exposure to this market was reduced. Our exposure to Japan and Asia within the Rest of World segment was increased, though we continue to monitor the trade war threat closely. We stayed underweight and slightly cut the number of holdings in the UK as the Brexit process rumbled on.

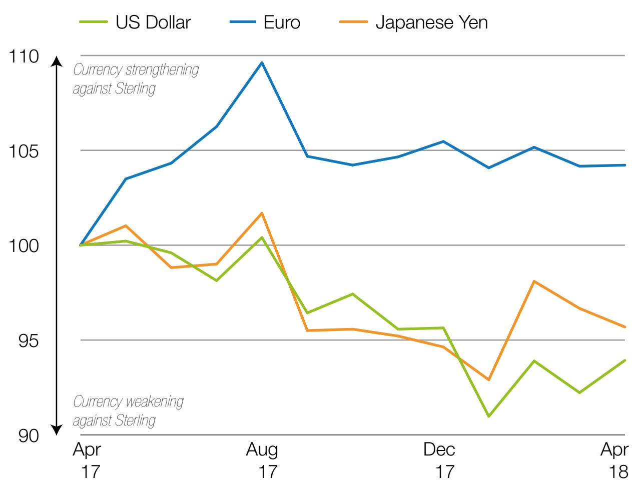
In relation to gearing, the Board has been keen to maintain effective gearing at around the 5% level, ending the year at 5.1%. As the Chairman's statement outlined we are looking at the options in relation to additional borrowing facilities, given that the CULS issue only runs to July 2019. The reviews that follow run through the details of performance across the regional portfolios. In all cases, stock market index performances are shown as sterling total returns, whereas individual share price performances highlighted are expressed in capital only local currency terms.

UK Review	One year
Portfolio Performance	**+18.8%**
Numis UK Smaller Companies (excluding investment companies) Index	**+7.1%**
FTSE All-Share Index	**+8.2%**

Smaller stocks slightly lagged the overall market against the back-drop of Brexit driven uncertainty. Our UK portfolio enjoyed a strong year, recording an eighth successive year of outperformance by the widest margin of recent years.

The UK economy grew by 1.7% in 2017, almost the same pace of expansion as in the previous calendar year. The fall in sterling post the Brexit vote helped the manufacturing and export side of the economy which also benefited from stronger global demand. The number of people in employment continued to grow to record levels. Consumer spending has however been under pressure as wage increases have struggled to keep up with the pick-up in inflation. This has been consistently above the Bank of England's 2% target,

Currency movements relative to sterling in the year ended 30 April 2018



Source: F&C

John Laing Group is an investor in a project to build and operate new rail lines in the Denver area in the US.

and as a consequence in November 2017, the first increase in base rates in more than a decade was announced. Sterling rose against the dollar and yen during the year but was weaker versus the in-favour euro.

The financial sectors produced several of the best performers of the year. **AFH Financial Group** shares rose 82.8% as the company continued to successfully execute its business plan to consolidate small IFA businesses. Fund management businesses with steady inflows usually do well and **Premier Asset Management** shares which only floated in 2016, ended the year at nearly double the IPO price on the back of some excellent inflows into its multi-asset and income orientated funds. Shares in **Draper Esprit**, a venture capital investment firm specialising in digital technology investing were up 33%. A placing of new shares gave management the scope to invest more in existing and new opportunities and the company's NAV benefited from several profitable disposals and valuation uplifts. Draper owns stakes in some very interesting private companies and we are optimistic that a number of these could prove to be lucrative.

In the software sector our holding in **Craneware**, the Scottish based supplier of billing services to the US hospitals market made the largest individual contribution to outperformance on the whole portfolio, rising by 53.6%. US hospitals are under pressure to improve their efficiency and Craneware's revenue management software tools are seeing increased adoption as a result. **Computacenter** pleased the market by outperforming expectations and making a large return of capital to investors.

While consumer spending has been sluggish, some business franchises have continued to thrive. **On The Beach Group**, an online travel agent, performed excellently against legacy larger brands in the UK and developed its presence in Scandinavia, while tonics supplier **Fevertree Drinks** continued its amazing expansion. We eventually reluctantly sold our holding given the extent of the run-up in the shares. For several years we have been cautious on retail stocks on the basis that the trend towards online shopping was likely to prove painful for many high street operators. A number of well-known retail shares in the small cap sphere fell sharply. Carpets supplier **Victoria** might have been expected to suffer given a more sluggish demand backdrop but astute assimilation of a number of acquisitions and international expansion has thus far proved successful in countering these pressures.

Veterinary supplies company **Dechra Pharmaceuticals** continued to do well, with the shares rising 62.2% and we supported a placing to fund the purchase of complimentary businesses in Europe. Specialist foams supplier **Zotefoam's** shares rose as its results beat expectations and the company announced an important deal with sports footwear supplier Nike. Electronic components business **DiscoverIE Group** shares were up 64.7% as organic growth re-emerged.

We added to our energy investments and benefited as the oil price rallied. The best contributor was **Faroe Petroleum**. This North Sea focused company has a risk averse business model with a strong technical team who have proved adept at finding new reserves and then realising value from them. This, plus the promise of impending production growth, has attracted the attention of a peer which has taken a near 30% stake in company. This was not the only company the subject of third party interest, and we gained from bids for challenger bank **Aldermore** and specialist electronics supplier **Laird**, the latter coming after a rescue fundraising which we had supported in the prior year.

Huntsworth, the media agency and communications company, had an excellent year as its health sector related business grew strongly. Less positively our holdings in **TLA Worldwide** and **Ebiquity** suffered. The former's shares were suspended for a protracted period following news of fraud and disappointing results, and we decided to sell out when they resumed trading as confidence in management was broken. Marketing analytics business Ebiquity shares fell 40.5% as the company missed expectations and made a dilutive disposal.

Profit warnings are a fact of life in small cap investing as things don't always go to plan. During the year **Luceco**, **Carclo**, **McBride**, **Greencore** and **Ultra Electronics Holdings** all disappointed the market with downgrades. All were negatively affected by the impact of a stronger pound on overseas earnings but other stock specific issues were the prime cause of share price weakness. We decided to retain the latter four as we felt the share price reactions to the downgrades were over-done, but in Luceco's case we decided to exit after contact with management failed to convince us that there would not be more trouble on the horizon.

The UK portfolio turnover was lower than in previous years. We did participate in several IPOs, but with a number we ended up taking profits after the shares surged on listing. On the selling side it's sometimes sad to exit holdings that have served us well such as engineers **Hill & Smith** (initially purchased more than a decade ago) and **Bodycote**, brewer **Fuller Smith & Turner**, and the aforementioned Fevertree Drinks. However, it is important to avoid falling in love with investments and to look at valuations dispassionately.

Fortunately, as has been demonstrated for many years, the UK portfolio is not as UK centric as was once the case. It seems unlikely that UK interest rates will move much in the coming period given recent data indicating inflation easing back and a growth slowdown in early 2018. The UK does face an uncertain period ahead while the exit from the EU is negotiated and we need to be ready to adjust the portfolio and our weighting as the terms and implications become clearer.

European Review	One year
Portfolio Performance	**+4.0%**
Euromoney Smaller Europe Ex UK Index	**+11.6%**
FTSE All World Developed Europe ex UK Index	**+6.9%**

While investors in European equities must by now be used to political uncertainty, the prospect of French, German and Italian elections would have caused some concern heading into the year under review, despite the improving economic environment. The eventual election of Mr Macron, and the ultimate re-election of Ms Merkel as German leader, in combination with an economic recovery that became increasingly broad-based, ultimately meant an encouraging back-drop for investing in European smaller companies and the index made good returns. This was despite the turmoil in Catalonia and the success of populist parties in the Italian elections more recently.

Disappointingly the portfolio lagged this strong market. When looking at our sector performance we fared particularly badly in technology. The sector had a strong year as in other markets and we were hurt by both an underweight position and poor performance from our holdings. Our low weighting in the sector does not however indicate any particular antipathy towards technology companies, more the results from our research which has led to caution against some areas of the sector that appear particularly expensive. Turning to our holdings, both **ASM International**, the Dutch semi-conductor equipment supplier and **Lectra**, the French software and equipment company, gave back some of their large historic gains, falling by 10.0% and 9.4% respectively. Unfortunately, this happened entirely in the last part of the year in reaction to some lacklustre near-term results for both companies. The share price moves seemed to be somewhat overdone and we would expect both shares to recover over time.

Our consumer holdings also had a challenging year, with the holdings in the Spanish TV companies **Mediaset Espana** and **Atresmedia** struggling. The principle reason we owned these companies was because they operated in a duopoly which was set to benefit from the recovery of advertising in an economy that is now exhibiting solid levels of growth with falling unemployment. This thesis however broke down as advertising expenditure stalled. We consequently sold the positions on the view that this slowdown in TV advertising is due to a structural audience shift to non-linear television services such as Netflix.

We also had a number of other stock specific disappointments. One of our newer holdings, **Lenzing**, the Austrian specialist chemical company, fell by 43.4%. The company is a leading viscose producer, having a quasi-monopoly position in the production of certain specialist materials. Investors have become concerned that additional capacity that is scheduled to come onto the market will dampen profits. We are more sanguine and believe that the proportion of speciality products in their revenues, growth in the end markets and challenges related to building production capacity, will mean profits are more resilient. We have therefore been selectively adding to the position. One of our Swedish holdings, **Inwido**, Europe's largest wooden window producer, also had a challenging year and the shares dropped 40.0%. During the year increased demand led to some bottlenecks in their supply chain resulting in increased costs.

On a more positive note, as in the UK, a number of our holdings in the financial sectors did well, benefitting from the powerful combination of improving earnings and re-ratings. Scandinavian companies, **Sparebank**, the Norwegian bank, **Ringkjoebing Landbobank**, the regional Danish bank, and **Storebrand**, the Norwegian life insurance and pensions business, were up by 17.3%, 13.0% and 21.4% respectively. Some of our holdings in the sector have built strong capital positions, and with improving earnings prospects, are beginning to pay back capital to shareholders, while

Tomra is a world leader in the market for machines used in the collection of cans and bottles for recycling.

some are beneficiaries of the trend towards higher bond and general interest rates.

Our top performer, however, was **Vidrala**, the glass bottling business which has operations across Iberia and the UK. The shares were up 61.4% as the company strengthened its already leading position in Portugal by acquiring its most aggressive competitor, thereby benefiting not only from increased scale but also from a more benign market environment. Another Iberian based company **Fluidra**, was a new holding in the year. The company manufactures and distributes equipment for the construction and maintenance of residential and commercial swimming pools. The market in Europe is now recovering after a cyclical downturn, and the company's decision to merge with a similar US business was well-received by investors.

Tomra Systems, the Norwegian recycling company also made strong gains. It is the market leader by some distance in technology for reverse vending machines, which recycle plastic bottles. Whilst operationally the company delivered strong profit growth the shares performed particularly well following the British government's decision to introduce a plastic bottle deposit scheme.

Two of the larger sales from the portfolio in the year were **Amer Sports** and **Christian Hansen**. We have held these stocks for a number of years, but with the market conditions for sports goods suppliers becoming tougher in common with many other consumer products, we decided to take profits in Amer Sports, which had bounced after a tricky 2016/17. The valuation of ingredients business Christian Hansen had run up to an extended level and so we decided to sell this long-standing holding as well.

In terms of outlook, while the recent changes in governments in Italy and Spain create uncertainty, we continue to be optimistic with regard to the European economy. Consumer confidence has improved and corporate profit prospects still look positive given the earlier stage in the cycle that Europe stands at compared to the US for example. However, whilst a portfolio of smaller companies will naturally be closer aligned with local economic performance, at the margin we are shifting away from some of the more globally exposed industrials where we feel the demand cycles look extended and valuations are no longer supportive.

North American Review	One year
Portfolio Performance	**+5.8%**
Russell 2000 Index	**+4.8%**
S&P 500 Composite Index	**+7.3%**

The Russell 2000 smaller companies Index was up but modestly lagged the larger cap S&P 500 Composite Index. Relative earnings growth prospects of larger companies which typically generate more of their profits abroad were helped by the weakening of the US dollar against other currencies. The more technology oriented NASDAQ Composite Index delivered yet another strong year, rising by 11.9% in sterling total return terms.

The market didn't move much in the early part of the financial year but rose over the October to January period, with investors responding favourably to a pick-up in corporate earnings growth and the signing into law of the 'Tax Cuts and Jobs Act of 2017'. This legislated for a material reduction in corporate tax rates, and also reduced personal taxes, thereby providing further stimulus to the US stock market and economy, arguably at a time when this was not what was needed.

After an unusually long period of calm in the financial markets, volatility returned in February 2018. Inflation had gradually risen towards targeted levels, and the ten year bond rate responded by moving close to 3%. The Federal Reserve had started the process of reducing its balance sheet in October 2017 and over the course of the year raised interest rates three times in an attempt to show the market that inflation would not be allowed to get out of control.

Over the year the best performing sectors within the market were health care, technology and consumer discretionary, while the laggards were consumer staples, utilities and materials and processing.

The portfolio outperformed, helped significantly by positive stock selection in the technology sphere. **GTT Communications**, a telecommunications services company, made good progress with its acquisition strategy, announcing several accretive deals that broadened the company's product portfolio. **WEX**, a diversified payments and transaction processing business with a large part of its earnings generated from its fuel card segment gained 59.6% due to the recovery in gasoline prices. **Total Systems Services**, a provider of payments and transaction processing services continued to see a healthy level of activity in its US credit card issuing business and the shares rose 46.7% as it benefitted from acquisition synergies and lower costs. **CSRA**, an IT services provider to the US government, received a takeover bid from General Dynamics at a healthy premium, while golf and country clubs company Clubcorp was also acquired.

Health care has been a tricky sector to assess given the potential reforms that the Trump administration had been looking to enact, but our stock selection here also added value. A management shake-up at **Molina Healthcare** was well-received by investors with the shares rising 67.2%. The long-standing CEO and CFO were replaced by a new team that have subsequently restructured the business. Shares in **The Ensign Group** rose 55.3% as the company's performance turned for the better with facility occupancy rates improving and our holdings in contract research company **ICON** and sterilisation services company **STERIS** also did well as results impressed.

As ever not everything worked out as planned. **Franklin Financial Network**, a Tennessee based bank, fell by 16.9% as it suffered from margin degradation because of a flattening yield curve, increased competition for deposits and higher expenses incurred to build out the company's infrastructure. Volumes at **Martin Marietta Materials**, a producer of construction materials, were impacted by adverse weather, contractor labour constraints and a slower than expected pace of public contract awards. The shares were down 11.5% as a result. **Nuance Communications**, a provider of speech related software and services, found the process of adapting its core medical offering to the needs of other sectors such as automotive, longer and more difficult than initially expected. Same store sales growth at **The Michaels Co**, a retailer of arts and crafts products, faced the headwinds of tough yearly comparisons and increased price competition leading to a 20.3% fall in the share price. ATM machines business **Cardtronics** suffered from increased regulation in its pay to use ATM business and we decided to sell the holding at a loss.

Purchases in the year included two 'compounders'. These are high quality businesses with strong competitive advantages that offer reliable long-term growth. **Spectrum Brands** owns several pet, home and garden and auto-care brands. Free cash-flow per share should grow at this company through price increases, several organic growth initiatives, operating leverage and sensible capital deployment. **Dolby Laboratories** is a provider of highly regarded software and intellectual property to the consumer electronics industry. We anticipate growth should come from increased involvement with new platforms at existing customers and operating leverage.

Despite being in the ninth year of an economic expansion we are still finding some cyclical stocks to invest in. One such area is industries serving the energy sector. **Kirby** is the largest operator of inland and coastal tank barges in the US. Excessive capacity building during the shale boom led to a collapse in industry spot rates and utilisation. These should recover as the industry consolidates (with Kirby leading the way) and demand comes back. **NOW** is a distributor of energy related products, primarily serving the US and Canadian onshore markets. The business had been hurt by lower levels of drilling activity but now the company's strong balance sheet should put it in good stead to capture market share as the industry recovers. We also added some other recovery situations including **PRA Group** which purchases, manages and collects on defaulted loans. As the credit cycle turns, the company should be able to purchase more portfolios at better prices resulting in improved returns for shareholders. **Avnet** is a global distributor of technology components. A new management team have addressed several issues at the business that led to elevated customer attrition; growth and profitability should improve as a result.

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, five examples would be the aforementioned GTT Communications, **Roper Technologies** (a holding company that owns several niche technology and industrial businesses), defence and transport services company **Cubic**, IT consultancy business **ICF international** and insurer **WR Berkeley**. We felt that our original investment thesis for **Zayo Group Holdings**, an owner of telecommunication assets, was broken as the company lost its strategic direction and failed to reduce its balance sheet leverage. We have become increasingly conscious of the risks in over-leveraged stocks given the outlook for higher interest rates, and we made several intra-sector switches into companies with lower debt profiles.

The near-term outlook for the US economy seems to be one of solid growth in a somewhat late cycle environment. The employment situation is healthy with the unemployment rate now below 4%

Kirby is the largest US tank barge operator, benefitting from improving activity in the energy sector.

and wages edging upwards. Manufacturing has been helped by a pick-up in global growth and recovery in the commodities sectors. Housing and construction continues to recover but has recently been volatile because of supply constraints. Government spending is now increasing because of more certainty over the budget. The recently enacted tax cuts as well as increased optimism amongst businesses has led to a pick-up in capital investment.

Corporate earnings growth has accelerated significantly in 2018 to date because of tax reform and a rebound in energy sector profits. Several risks are however on the horizon: valuations still look stretched, corporate leverage is high and political risk is still very prevalent, not least in relation to trade policy. Furthermore, inflationary pressures appear to be building and this could accelerate monetary tightening by the Federal Reserve at a time when bond issuance is rising due to a higher fiscal deficit. We will continue to focus on companies with strong balance sheets and where we have confidence in their ability to pass rising costs through.

Japanese Review	One year
Portfolio Performance	**+15.7%**
MSCI Japan Small Cap Index	**+16.4%**
Topix Index	**+13.8%**

This was a good year for Japanese equities, with smaller company shares doing particularly well. The portfolio delivered a strong return albeit ended a little behind the MSCI Japan Small Cap Index.

In a year when events elsewhere have tended to dominate the headlines, Japan's economy enjoyed a solid year, in so doing recording the longest successive quarterly period of expansion since the Japanese economic bubble period. As a large exporting country, there have been clear benefits from the global pick-up in activity. The labour market continued to improve with unemployment very low at less than 4%, and more of the working age population is now actively seeking employment, important given the negative demographic drivers.

While still below the target of the Bank of Japan, inflation is now comfortably in positive territory and the recent rise in commodity prices could drive it up further. The Bank of Japan recently indicated that it was assessing how it should go about ceasing quantitative easing, but for now some 80 trillion yen of assets are still being bought each year, providing support to financial asset prices.

The equity market was lifted by a generally positive performance from companies, with profits tending to come in well ahead of expectations. While this was partly due to cautious guidance from companies a year earlier, there have been some genuinely encouraging results coming through. The slow grind towards a more shareholder friendly culture in Japan is continuing, with more management teams recognising the need to deliver better returns, though there is still a long way to go at many companies.

As elsewhere, technology related stocks led the way with robotics and automation key themes, and growth stocks in general did better than value ones. This was unhelpful for our holding in the **Eastspring Investments Japan Smaller Companies Fund**, which has an un-ashamed bias towards value stocks. This investment approach, applied consistently by an experienced team, has worked well over the long term, and we remain confident that it will continue to do so in the future.

The other fund that we own for exposure to the market is managed by Aberdeen. This has more of a focus on quality growth stocks, and given the underlying market dynamic, this did better than the Eastspring fund, reversing the pattern from the prior year. We continue to review potential other funds that we could supplement the existing two holdings with.

In recent years, political risk in Japan has been lower than elsewhere, with Shinzo Abe's LDP winning re-election in October 2017, this looked likely to continue. More recently however speculation has risen that Abe could call another election as the opposition has been causing parliamentary grid-lock to halt the advance of talks about changing the constitution. While this does create some uncertainty, we suspect that concern could prove unfounded.

Corporate earnings projections for the March 2019 fiscal year appear to be being set conservatively, which hopefully provides scope for another year of positive surprises to come. The yen remains at a competitive level, though the country would clearly be impacted if the US/Chinese trade spat worsens. We are presently overweighting Japan in our asset allocation, taking comfort from lower valuation metrics in the market compared with elsewhere. At a time when interest rates around the world are gravitating upwards, Japan's corporate tradition of strong balance sheets is another advantage.

Rest of World Review	One year
Portfolio Performance	**+6.4%**
MSCI All Countries Asia Pacific ex Japan Small Cap Index	**+10.4%**
MSCI EM Latin American Small Cap Index	**+11.3%**

This part of the portfolio covers a large number of individual markets and as usual there was quite a dispersion of returns in the year. Unfortunately our portfolio underperformed the overall Asian and Latin American small cap indices this year.

As with the previous financial year, the second half proved more difficult than the first for emerging markets. Protectionism fears stemming from President Trump's moves to impose tariffs mentioned earlier on, served to dampen investor sentiment towards Asia, although in overall terms there were net inflows into the markets over the year as a whole.

While many Asian countries are less dependent than they once were on the US with inter-regional trade becoming more important, the threat of a reduction in export business to the world's largest economy was not good news. It remains to be seen how this plays out but given the increasingly sophisticated and global supply chains that exist across many industries, it's hard for investors to know how to factor this in to their deliberations. The North Korean nuclear testing programme also had an impact on markets from time to time, but hopefully risks here have diminished more recently.

Underlying economic growth across Asia if anything firmed in the last year with China's published data suggesting that it was growing at a solid and relatively stable rate. The Chinese economy is undergoing a rebalancing with services as opposed to manufacturing becoming more important, and issues such as pollution, health and education are becoming more relevant in policy making. With the US dollar weak for much of the year, central banks in Asia did not need to respond to the move up in US interest rates, although more recently a revival in the dollar has prompted some fears of a run on some of the perceived weaker local currencies.

The best performing markets in Asia during the year included China, Thailand, Singapore and Korea, while weaker markets included the Phillipines, Indonesia and Australia.

Latin American markets followed a similar path to Asia, with a weaker second half. Brazil, the largest market by far, had a good year as the economy moved out of recession at last. The country is benefitting from buoyant exports into China of agricultural products and iron ore, and during the year moderating inflation allowed the central bank to slash interest rates. Corruption scandals continued to undermine confidence in politicians as the country approaches fresh Presidential elections in the Autumn. Other markets were mixed with Mexico impacted by fears of reduced trade with the US and damage from earthquakes, while more recently the Argentinian currency has slumped following a policy error to cut interest rates in January.

Our investments in Asia and Latin America are made through holdings in seven individual funds. These mainly focus on Asia, as we feel that the underlying universe of small cap companies here is superior to those in South America. During the year, the best performing fund was managed by Manulife, with an overweight stance to technology and growth stocks in general paying off handsomely. We added to our holding in the fund during the year. Our holding in the HSBC managed fund also performed well in the second year that we have been invested. Unfortunately, we can't increase our holding in this well-managed fund as it is closed to new investment to prevent the investment team from having liquidity challenges in managing the assets.

Underperformance in the year was mainly the result of weaker performance from our two investment trust holdings. **The Scottish Oriental Smaller Companies Trust** portfolio has been repositioned to a higher conviction approach with fewer holdings after a change of lead manager. Thus far results have been underwhelming, but we still think the team operate a prudent and sensible approach to investing in the region and hope for better results in the new year. The **Utilico Emerging Markets** fund also lagged with its sector skew working against it. We remain positive on the medium term outlook here given the ongoing need for more infrastructure spending in many emerging markets.

We continue to have regular dialogue with the fund managers of our holdings and may introduce new positions in the coming year given the relatively disappointing performance of late. The more recent recovery in the US dollar is not overly helpful for these markets based on historical performance, bringing the risk that some countries may need to lift their own interest rates. We remain optimistic that good fund management teams with a diligent approach to investment can unearth attractive opportunities in these markets.

Outlook

It's always hard to call the near term outlook for markets. Corporate earnings are rising in most markets but we remain conscious that equity market valuations are potentially vulnerable at a point of time when interest rates are moving up and when net bond buying by central banks is set to turn to net selling. The extent of the impact of the global economy from US trade policy is unclear at this stage though we would hope that tensions moderate. The months ahead will hopefully provide greater clarity around the Brexit process, while European politics will also be interesting to watch given the new administration now in place in Italy.

The progress of the fund will as ever, mainly depend on the individual stock selections that the team make. We are optimistic about the outlook for the portfolio and will continue to look for new opportunities in the year ahead.

Peter Ewins
19 June 2018

Thirty Largest Holdings

30 April 2018	30 April 2017		% of total investments	Value £m
1	1	**Eastspring Investments Japan Smaller Companies Fund** *Japan* Fund providing exposure to Japanese smaller companies.	5.5	47.4
2	2	**Aberdeen Global-Japanese Smaller Companies Fund** *Japan* Fund providing exposure to Japanese smaller companies.	4.3	37.4
3	4	**Pinebridge Asia ex Japan Small Cap Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	2.9	25.3
4	3	**The Scottish Oriental Smaller Companies Trust** *Rest of World* Investment trust providing exposure to Asian smaller companies.	2.9	25.1
5	5	**Utilico Emerging Markets** *Rest of World* Investment trust focusing on utility and infrastructure companies in emerging markets.	2.2	18.8
6	8	**Manulife Global Fund – Asian Smaller Cap Equity Fund** *Rest of World* Fund providing exposure to Asian smaller companies.	1.9	16.5
7	6	**HSBC GIF Asia ex Japan Equity Smaller Companies** *Rest of World* Fund providing exposure to Asian smaller companies.	1.4	12.4
8	9	**Alleghany** *United States* Specialist commercial insurer.	1.2	10.1
9	11	**State Bank Financial** *United States* Atlanta based bank.	1.2	10.0
10	12	**STERIS** *United States* Global supplier of surgical and sterilisation products and services.	1.1	9.4
11	14	**Waste Connections** *Canada* North American provider of waste collection and disposal services.	1.0	9.0
12	10	**Franklin Financial Network** *United States* Tennessee based bank that makes real estate based loans.	0.9	7.7
13	22	**Vail Resorts** *United States* Operator of luxury ski resorts in the US and Australia.	0.9	7.7
14	19	**Amdocs** *United States* Outsourced IT services provider to telecommunications sector.	0.9	7.6
15	30	**CLS Holdings** *United Kingdom* Property investment company mainly operating in the UK, Germany and France.	0.9	7.5
16	62	**WEX** *United States* An operator of a fuel card payment network.	0.8	7.4
17	13	**Martin Marietta Materials** *United States* Aggregates and cement producer that served the construction industry.	0.8	7.4
18	20	**Sterling Bancorp** *United States* New York based commercial lender.	0.8	7.1
19	–	**Kirby** *United States* US tank barge operator.	0.8	7.1
20	18	**LKQ Corp** *United States* A distributor of alternative car parts.	0.8	6.9
21	26	**American Vanguard** *United States* Producer of chemicals for crop protection.	0.8	6.9

30 April 2018	30 April 2017		% of total investments	Value £m
22	38	**ICON** *United States* Clinical research provider to the global pharmaceutical industry.	0.8	6.9
23	17	**Leucadia National** *United States* Diversified holding company with exposure to the financial services, food and extractive industries.	0.8	6.7
24	7	**Aberdeen Global-Asian Smaller Companies Fund** *Rest of World* Investment company providing exposure to Asian smaller companies.	0.8	6.6
25	31	**CDW** *United States* Integrated IT services company serving SME's in the US.	0.7	6.5
26	45	**C.H. Robinson Worldwide** *United States* Third party logistics and supply chain management provider.	0.7	6.4
27	28	**Catchmark Timber Trust** *United States* REIT that owns timberlands in southern states in the US.	0.7	6.3
28	78	**Wellcare Health Plans** *United States* Provides managed care health plans exclusively to government sponsored programs in the US.	0.7	6.3
29	61	**Microsemi** *United States* Provider of semiconductor and system solutions for the aerospace, communications, data centre and industrial markets.	0.7	6.2
30	63	**Craneware** *United Kingdom* Provider of revenue management software to the US hospitals market.	0.7	6.1

The value of the thirty largest equity holdings represents 40.6% (30 April 2017: 38.8%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2018 Value £'000s
EUROPE		
AUSTRIA		
Lenzing	31,240	2,633
DENMARK		
Ringkjoebing Landbobank	91,671	4,010
FRANCE		
Lectra	170,447	3,177
Plastic Omnium	50,854	1,777
Total France		4,954
GERMANY		
Aareal Bank	104,529	3,802
CTS Eventim	119,598	4,064
Gerresheimer	72,031	4,265
NORMA Group	50,021	2,668
Rational	3,605	1,636
SAF Holland	204,160	2,762
Symrise	27,019	1,590
Takkt	208,815	3,132
Total Germany		23,919
IRELAND		
IFG Group	1,231,215	1,706
Irish Continental Group	510,912	2,492
Origin Enterprises	614,392	2,846
Total Ireland		7,044
ITALY		
Azimut Holding	100,356	1,534
Cerved Information Solutions	442,470	3,901
Marr	74,998	1,643
Total Italy		7,078
NETHERLANDS		
ASM International	58,740	2,551
IMCD	69,770	3,118
Sligro Food	71,894	2,705
Total Netherlands		8,374
NORWAY		
Sparebank	473,342	3,410
Storebrand	554,792	3,451
Tomra Systems	145,052	1,959
Total Norway		8,820
SPAIN		
Bolsas Y Mercados	55,841	1,424
Fluidra	261,550	2,753
Vidrala	45,541	3,456
Viscofan	81,030	3,909

Quoted investments	Holding	30 April 2018 Value £'000s
Total Spain		11,542
SWEDEN		
Alimak	242,191	2,619
Coor Service Management	523,396	2,638
Dometic Group	441,122	3,081
Indutrade	149,412	2,568
Inwido	358,539	2,279
Nordic Waterproofing	166,160	1,011
Total Sweden		14,196
SWITZERLAND		
Forbo Holdings	3,692	3,767
Komax	9,395	1,885
Metall Zug	848	2,071
Tecan	13,973	2,244
Total Switzerland		9,967
TOTAL EUROPE		102,537
REST OF WORLD		
Aberdeen Global-Asian Smaller Companies Fund	189,457	6,648
HSBC GIF Asia ex Japan Equity Smaller Companies	1,247,000	12,356
Manulife Global Fund – Asian Smaller Cap Equity Fund	12,576,203	16,528
Pinebridge Asia ex Japan Small Cap Fund	50,990	25,323
The Scottish Oriental Smaller Companies Trust	2,495,185	25,077
Utilico Emerging Markets	8,830,096	18,808
TOTAL REST OF WORLD		104,740
JAPAN		
Aberdeen Global-Japanese Smaller Companies Fund	3,385,940	37,443
Eastspring Investments Japan Smaller Companies Fund	2,892,447	47,430
TOTAL JAPAN		84,873
UNITED KINGDOM		
4Imprint Group	149,094	2,564
AFH Financial Group	1,380,575	4,556
Anglo Pacific Group	1,322,356	2,083
Anpario	565,932	2,490
Arena Events	3,517,410	2,005
Arrow Global Group	664,792	2,466
Ascential	595,326	2,508
Biffa	1,358,110	2,804
Brewin Dolphin	974,530	3,516
Cairn Energy	1,863,567	4,219
Carclo	2,746,371	2,702
City Pub Group	1,520,635	2,813
Clinigen	446,385	3,917
Clipper Logistics	692,222	3,122
CLS Holdings	2,982,236	7,456

Quoted investments	Holding	30 April 2018 Value £'000s
Computacenter	323,461	4,101
Consort Medical	243,926	2,912
Countryside Properties	704,650	2,530
Craneware	335,971	6,115
Crest Nicholson	392,768	1,907
Dairy Crest Group	321,847	1,744
Dalata Hotel Group	524,937	2,997
De La Rue	394,104	2,089
Dechra Pharmaceuticals	210,761	5,779
DiscoverIE Group	748,495	3,166
Draper Esprit	715,275	3,290
Ebiquity	1,852,279	1,260
Elementis	714,140	2,025
Entertainment One	791,601	2,166
Euromoney Institutional Investor	208,156	2,710
Faroe Petroleum	4,321,855	5,722
Genus	147,653	3,733
Go Ahead Group	154,401	2,997
Greencore	1,411,338	2,240
Hollywood Bowl Group	1,301,288	2,759
Huntsworth	4,607,755	4,534
iomart	265,112	1,039
James Fisher and Sons	206,681	3,460
John Laing Group	2,035,157	5,751
Keller Group	254,725	2,644
Kier Group	222,393	2,389
McBride	1,494,531	2,242
McKay Securities	971,256	2,554
Mears Group	665,662	2,150
Next Fifteen Communications	669,895	3,082
On The Beach Group	605,563	3,706
Orchard Funding Group	1,820,151	1,729
PageGroup	461,020	2,476
Palace Capital	670,290	2,279
Plastics Capital	1,495,378	1,705
Polypipe	591,519	2,267
Premier Asset Management	1,266,045	3,089
Quiz	1,312,742	2,061
Restore	946,704	5,320
Revolution Bars Group	1,209,330	1,790
RPS Group	1,159,565	2,992
Sanne Group	589,186	3,647
Satellite Solutions Worldwide	9,433,101	774
SDL	461,381	1,822
SDX Energy	4,292,365	2,811
Senior Group	1,192,361	3,520
Sirius Real Estate	7,077,570	4,487

Quoted investments	Holding	30 April 2018 Value £'000s
Spirent Communications	1,444,981	1,714
St. Modwen Properties	760,207	3,118
Tarsus Group	968,002	2,827
Ted Baker	96,472	2,568
The Gym Group	1,181,641	2,930
TI Fluid Systems	886,206	2,286
Tracsis	193,642	1,142
Treatt	1,097,960	4,908
Trifast	1,520,058	3,967
Tyman	1,204,028	3,769
U And I Group	1,836,177	4,003
Ultra Electronics Holdings	175,413	2,468
Vertu Motors	4,835,913	2,413
Victoria	471,869	3,832
Wilmington	855,376	2,079
XP Power	127,250	4,454
Zotefoams	548,792	3,095
TOTAL UNITED KINGDOM		239,356
NORTH AMERICA		
CANADA		
Waste Connections	171,889	9,032
UNITED STATES		
Alleghany	24,254	10,119
Amdocs	155,360	7,582
America's Car-Mart	114,766	4,437
American Outdoor Brands	606,430	4,839
American Vanguard	443,654	6,925
Astec Industries	115,320	4,652
Avnet	208,555	5,939
Big Lots	121,041	3,731
Brown & Brown	293,644	5,801
C.H. Robinson Worldwide	96,037	6,416
Carriage Services	225,449	4,259
Carrizo Oil & Gas	222,858	3,247
Catchmark Timber Trust	668,782	6,337
CDW	125,253	6,483
Cinemark Holdings	203,291	5,780
CommVault Systems	101,453	5,149
Covanta Holding	460,041	4,960
Dolby Laboratories	109,363	4,751
Encompass Health	135,378	5,978
FireEye	401,173	5,255
Franklin Financial Network	315,772	7,715
Generac Holdings	137,866	4,505
Genesee & Wyoming	98,499	5,088
Granite Construction	80,281	3,053

Quoted investments	Holding	30 April 2018 Value £'000s
Graphic Packaging	511,604	5,312
Hallmark Financial Services	585,234	4,347
Haynes International	64,728	1,965
ICON	80,855	6,904
Kirby	114,671	7,097
Leucadia National	382,055	6,668
LKQ Corp	308,007	6,937
Magellan Health	74,750	4,548
Martin Marietta Materials	52,087	7,362
Microsemi	131,963	6,196
Molina Healthcare	98,091	5,933
Monro	122,753	4,986
Murphy USA	91,212	4,144
NOW	687,183	6,047
Nuance Communications	414,343	4,425
NxStage Medical	181,641	3,508
Performance Food Group	226,161	5,320
PRA Group	204,772	5,293
ProAssurance	105,192	3,613
Sabre	377,831	5,662
Safeguard Scientifics	502,933	4,729
Spectrum Brands	67,495	3,529
State Bank Financial	434,935	9,950
STERIS	136,518	9,367
Sterling Bancorp	414,348	7,145
The Andersons	199,389	4,719
The Ensign Group	300,929	6,089
The Michaels Cos	324,291	4,384
Total System Services	81,780	4,991
UGI	133,857	4,702
United Bankshares	193,178	4,762
Vail Resorts	45,964	7,650
Wellcare Health Plans	42,039	6,262
WEX	63,074	7,414
Total United States		324,961
TOTAL NORTH AMERICA		333,993
TOTAL QUOTED INVESTMENTS		**865,499**

Unquoted investments	Holding	30 April 2018 Value £'000s
AUSTRALIA		
Australian New Horizons Fund	2,520,372	2,970
TOTAL UNQUOTED INVESTMENTS		**2,970**

TOTAL INVESTMENTS		**868,469**

The number of investments in the portfolio is 185 (2017: 194).

By order of the Board
Anthony Townsend
Chairman
19 June 2018


‘Dividends – This will be the 48th consecutive year of growth, and the seventh year in a row of double digit percentage increases.’

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, 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
Interim Chairman of the Audit and Management Engagement Committee
was appointed to the Board on 1 June 2015. She is a non-executive director of Schroder Japan Growth Fund PLC, Martin Currie Asia Unconstrained Trust and British Empire Trust, and sits on the board of mutual Scottish Friendly Assurance. Previously Anja 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
Jo was appointed to the Board on 11 February 2015. She is a non-executive director of Strategic Equity Capital PLC, JPMorgan European Investment Trust PLC, Standard Life Equity Income Trust PLC, BB Healthcare Trust PLC and Ventus VCT PLC. **Shared directorships with other Directors:** JPMorgan European Investment Trust PLC with Andrew Adcock

David Stileman
David 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. He is chairman of The Garden Bridge Trading Company Ltd and Chichester Art Trust Limited. He is an executive director of Stileman Consulting Limited and an Honorary Trustee of the Royal Academy of Arts. **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 Nominet UK, Asthma 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 2018. 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 6 and 23. Principal risks can be found on page 14 with further information on financial risks in note 24 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 page 32.

Results and dividends

The results for the year are set out in the attached accounts. The recommended final dividend of 10.00 pence per share is payable on 8 August 2018 to shareholders on the register of members on 13 July 2018 subject to approval at the AGM (Resolution 4). This, together with the interim dividend of 4.40 pence per share, makes a total dividend of 14.40 pence per share and represents an increase of 17.6% over the comparable 12.25 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. 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 7 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.

Accounting and going concern

The Financial Statements, starting on page 52, 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 46. Shareholders will be asked to approve the adoption of the Report and Accounts at the AGM (Resolution 1).

As discussed in note 23 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 15.

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 AGM (Resolutions 11 and 12). Further information in relation to the reappointment can be found on page 43.

Capital structure

The Company's issued share capital at 30 April 2018 consisted of 59,732,792 ordinary shares of 25p each ("**ordinary shares**"), with voting rights and £22.2 million nominal of CULS. The CULS are listed on the London Stock Exchange and are tradeable assets. As at 14 June 2018 (being the latest practicable date before publication of this report) the number of ordinary shares in issue was 59,732,792.

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 15 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 2017, 2,774,368 units of CULS were converted into 283,752 ordinary shares and on 12 February 2018, 10,671,434 units of CULS were converted into 1,091,466 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. Holders of CULS are entitled to receive interest at a rate of 3.5% per annum payable semi-annually on 31 January and 31 July in each year. 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.

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

At the annual general meeting held on 27 July 2017, shareholders gave the Board authority to issue up to 10% of the Company's shares (5,741,000 shares) until the next AGM in July 2018 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 49 separate occasions. A total of 1,222,500 ordinary shares with a nominal value of £305,000 were issued at an average price of 1331.12 pence per share for a total consideration of £16,273,000 before the deduction of issue costs. 1,375,218 new ordinary shares were also issued as a result of the CULS conversions during the year. No further shares have been allotted since the year end, up to 14 June 2018.

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	9	411,000	1290.3 to 1379.8	5,492
Winterflood Securities Limited	3	148,000	1290.3 to 1373.3	1,984
Numis	37	663,500	1286.0 to 1388.0	8,797
Holders of CULS	2	1,375,218	977.697	–

Subject to annual shareholder approval, the Company may also purchase its own shares when trading at a discount to diluted NAV per share. 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 27 July 2017 shareholders gave the Board authority to buy back up to 14.99% of the Company's shares (8,606,000 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 2018 the Company's 59,732,792 ordinary shares in issue represented a total of 59,732,792 voting rights. As at 30 April 2018 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 52% 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 77,000 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, £22.2 million nominal of CULS remained in issue. The Company entered into a two-year £30 million multi-currency revolving credit facility with The Royal Bank of Scotland plc in September 2017. An overdraft arrangement is available to the Company by the Custodian for settlement of investment trades if necessary. Further reference is made on page 6 and in note 12 on the accounts.

Remuneration Report

The Remuneration Report, which can be found on pages 39 and 40 provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve both the Remuneration Policy and Annual Report on Remuneration at the forthcoming AGM. (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 30 and are incorporated into this report by reference. All the Directors held office throughout the year under review. All the Directors will stand for re-election by shareholders at the forthcoming AGM. (Resolutions 5 to 10). Anthony Townsend (the Chairman), Andrew Adcock and Jane Tozer have each served as a Director for more than nine years.

The Nomination Committee has considered each Director and the Board has concurred with the Nomination Committee's assessment that each Director is independent, continues to make a valuable and effective contribution and remains committed in the role.

Directors' interests and indemnification

There were no contracts 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 AGM. 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

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. The amount payable was £3,885,000, an increase of 19% from £3,262,000 last year reflecting the increase of the Company's average net assets during the year. Note 4 on the accounts provides detailed information in relation to the management fee. Performance fees are no longer paid to the Manager.

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 the Manager's 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 UK, US and European fund management team present to the Board at least annually. 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 2018 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. With regard to performance, the Shareholder return remained comfortably ahead of the Benchmark over the last decade.

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 that in its opinion the continuing appointment of FCIB as Manager on the terms agreed was in the interests of shareholders as a whole. The Board ratified this recommendation.

AGM

The AGM will be held on Thursday 26 July 2018 at 12 noon at the Chartered Accountants Hall, 1 Moorgate Place, London EC2R 6EA. The Notice of Meeting appears on pages 76 to 79, 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 £1,493,250 (5,973,000 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 2018, being the latest practicable date before the publication of the Notice of AGM. The authority and power expires at the conclusion of the annual general meeting in 2019 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 £1,493,250 (representing approximately 10% of the issued ordinary share capital of the Company at 14 June 2018). 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 NAV per share. Resolution 16 does not preclude the Directors selling treasury shares at a premium. As at 14 June 2018 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 10 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 8,953,000 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.

VOTING

Form of proxy

If you are a registered shareholder you will find enclosed a form of proxy for use at the AGM. 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 AGM. 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 AGM.

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 AGM 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 pages 32 and 33.

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 19 July 2018, 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 AGM 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
19 June 2018

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**"). As confirmed by the Financial Reporting Council, following the AIC Guide enables investment company boards to meet their obligations under the UK Corporate Governance Code (the "**UK Code**"). The Board believes that the Company has complied with the current recommendations of the AIC Code and thereby the relevant provisions of the UK Code during the year under review and up to the date of this report, except in relation to the UK Code's 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 provisions as not being 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 43, the Company has not reported further in respect of these provisions. The UK Corporate Governance Code published in April 2016 and the associated AIC Code of Governance published in July 2016 applied in the year ended 30 April 2018.

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

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.

Articles of association

The Company's articles of association may only be amended by special resolution at a general meeting of shareholders.

The Board

The Board's responsibilities are outlined on page 45. 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, policies (set out on pages 10 and 11) 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 any unlisted investments.

The following table sets out the Directors' meeting attendance in the year under review. The Board held a separate meeting in April 2018 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	5	2	1
Andrew Adcock	6	2	1
Anja Balfour	6	2	1
Jo Dixon	4	2	1
David Stileman	6	2	1
Jane Tozer	4	1	0

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 10 and 34.

Appointments

Under 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 following annual general meeting and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars. All other Directors stand for re-election by shareholders annually.

Board effectiveness

In order to review the effectiveness of the Board, the Committees and the individual Directors, the Board has carried out an annual self-appraisal process. 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 appraisal process. As the Company is now in the FTSE 250 Index, the Board appraisal will be carried out with the help of an independent external facilitator at least every three years.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of their period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in their place. The provisions under which a Director would automatically cease to be a Director are set out in the articles of association.

Board independence and tenure

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of the individual Directors. All the Directors have been assessed by the Board as remaining independent of F&C and of the Company itself; none has a past or current connection with F&C and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement. This includes Anthony Townsend (the Chairman), Andrew Adcock and Jane Tozer, who have each served for over nine years. Those Directors serving more than six years are subject to more rigorous review before being proposed for re-election.

The Board has a policy that only a minority of the Directors should generally have served for more than nine years. As noted in the Chairman's Statement, succession planning is underway.

The Board is, however, 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.

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. These authorisations were reviewed throughout the year at the commencement of each Board meeting and at the Nomination Committee meeting in June 2018, when each Director abstained from voting in respect of their own directorships. 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 41 to 44.

Nomination Committee

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

(i) The structure and size of the Board and its composition particularly in terms of succession planning and the experience and skills of the individual Directors and diversity across the Board as a whole;
(ii) tenure policy;
(iii) the criteria for future Board appointments and the methods of recruitment, selection and appointment;
(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 36.

The Board's diversity policy is set out on page 11.

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 39 and 40 and in note 5 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 84.

All shareholders have the opportunity to meet and question the Board at the AGM.

By order of the Board
F&C Investment Business Limited
Secretary
19 June 2018

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. This includes provision for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings, including 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. 91.70% of votes were cast in favour of the resolution, 8.19% against and 0.11% withheld. The Board seeks approval of this policy annually. The Board will consider, where raised, shareholders' views on Directors' remuneration. A letter from one private shareholder was received in the year under review.

The Company's articles of association limit the aggregate Directors' fees payable to £300,000 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. 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. The Board considers the level of Directors' fees annually and the Chairman carried out a review of fee rates in accordance with this policy towards the end of the year under review. The fees were previously increased in May 2016 and the Board agreed with the Chairman's recommendation that, commencing 1 May 2018, the basic fee should be £25,000, representing an increase of 4.2%, and that the additional fee paid to the Chairman of the Audit and Management Engagement Committee should be increased to £4,500. The Board also agreed to the Senior Independent Director's recommendation that the Chairman's fee should be increased to £42,000.

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 for inspection at the Company's registered office during business hours and will be available for 15 minutes before and throughout the forthcoming AGM, 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

	2019 £'s	2018* £'s
Board		
Chairman**	44,000	42,000
Senior Independent Director	26,500	25,500
Director	25,000	24,000
Audit & Management Engagement Committee		
Chairman	6,500	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 ended 30 April	2018		2017	
	Ordinary shares	CULS	Ordinary shares	CULS
Anthony Townsend	18,000	–	18,000	–
Andrew Adcock	7,557	–	5,000	25,000
Anja Balfour	4,000	–	2,000	–
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 2018 and the date of this report. No Director held any interests in the Company's ordinary shares or CULS other than stated above. There is no requirement for the Directors to hold shares in the Company.

As at 14 June 2018 the Lead Manager held 23,290 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 AGM. At the Company's last annual general meeting, shareholders approved the Remuneration Report in respect of the year ended 30 April 2017. 92.27% of votes were cast in favour of the resolution, 7.62% against and 0.11% withheld.

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 2018 and 2017 and can expect to receive the fees indicated for 2019 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	2018	2017	2018	2017	2018	2017	2019
Anthony Townsend[3]	42.0	42.0	–	–	42.0	42.0	44.0
Andrew Adcock	26.0	26.0	0.4	–	26.4	26.0	27.0
Anja Balfour[4]	26.0	26.0	3.1	3.3	29.1	29.3	29.2
Jo Dixon[4]	30.0	30.0	2.5	1.6	32.5	31.6	29.2
David Stileman	26.0	26.0	–	–	26.0	26.0	27.0
Jane Tozer	27.5	27.5	0.1	0.2	27.6	27.7	28.5
Total	177.5	177.5	6.1	5.1	183.6	182.6	184.9

(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 2019. Taxable benefits are also anticipated but are not currently quantifiable
(3) Highest paid Director
(4) Audit and Management Engagement Committee Chairman's additional anticipated fee for 2019 is to be split between Anja Balfour and Jo Dixon

The information in the table above for the years ended 30 April 2018 and 2017 has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

The following table 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	2018 £'000s	2017 £'000s	% Change
Aggregate Directors' Remuneration	177.5	177.5	0
Management and other operating expenses[1]	4,752	3,985	19.2
Dividends paid to Shareholders in the year	7,330	6,577	11.4

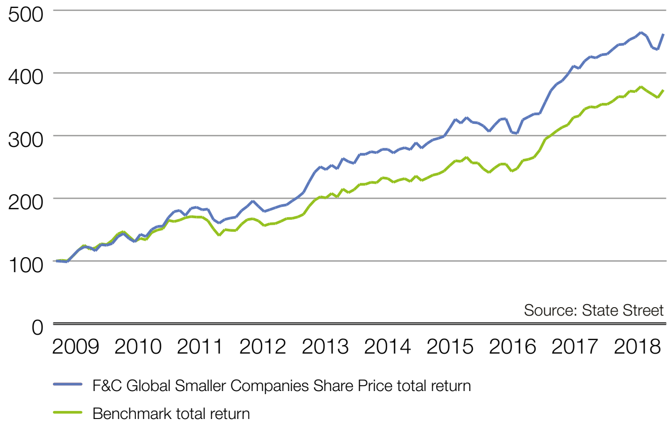
(1) Includes Directors' remuneration

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 2018 is given in the Chairman's Statement and Manager's Review.

A comparison of the Company's performance over the required nine 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 nine years



On behalf of the Board
Anthony Townsend
Chairman
19 June 2018

Report of the Audit and Management Engagement Committee

The Audit and Management Engagement Committee (the "Committee") has focused on new regulatory developments throughout the year including MIFID II and related disclosures. Our focus on cyber-security measures has been maintained.

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 2018 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 and approval of any such services;
- The need for the Company to have its own internal audit function;
- The ISAE/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 45. 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. The Committee has also considered and agreed the processes relating to new regulations particularly MIFID II and the Criminal Finances Act 2017.

Composition of the Committee

During the year, the Committee comprised all the Directors. Jo Dixon temporarily stepped down as Chairman of the Committee in February for reasons of health. The Committee is currently being chaired by Anja Balfour and its terms of reference can be found on the website at www.fandcglobalsmallers.com. 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. All the Committee members are independent non-executive Directors. Anja Balfour, Interim Chairman of the Committee, is experienced as audit chair 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. The process evolved during the year to align with BMO's rigorous risk profiling activity.

The Company's Principal Risks are set out on page 14 with additional information given in note 24 on the Accounts. The Committee noted the robustness of the Board's review of Principal Risks and participated as Board members themselves. The integration of these risks into the analyses underpinning the "Five Year Horizon" Statement on viability on page 15 was fully considered and the Committee 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 2017 (the "**ISAE/AAF Report**") and subsequent confirmation from F&C that there had been no material changes to the control environment in the period to 23 May 2018. This has been prepared by F&C for all its investment trust clients to the International Standard on Assurance Engagement (ISAE) No. 3402 and to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). The ISAE/AAF Report from independent reporting accountants KPMG sets out F&C's control policies and procedures with respect to the management of clients' investments

Significant Judgements and Issues considered by the Committee for the year ended 30 April 2018

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.

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 42 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. Likewise, the Committee reviewed the disclosure and description of Alternative Performance Measures provided on page 85 and is satisfied that the disclosure is fair and relevant.

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 2018 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.

The Committee has carefully considered the disclosures made in the Report and Accounts particularly in relation to the EU Non-Financial Reporting Directive (EU/2014/95). It is aware that this area of Non-Financial Reporting matters will evolve further in coming years.

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 46 to 50.

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 £32,200, having been agreed by the Committee. This compared with £31,500 paid to PwC last year.

At the forthcoming AGM shareholders will vote on the reappointment of PwC for the 2019 audit. 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. Jeremy Jensen's retirement by rotation as senior statutory auditor will coincide with PwC's final audit, which is currently expected to be for the year ended 30 April 2019. The Board anticipates putting the audit out to tender during the latter part of 2018.

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;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- 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.

PwC have not provided or charged for any non-audit services for the year ended 30 April 2018.

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 37.

Anja Balfour
Interim Chairman
Audit and Management Engagement Committee
19 June 2018

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

The directors 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 directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on page 30 confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Directors' 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board
Anthony Townsend
Chairman
19 June 2018

Independent Auditors' Report

Report on the audit of the financial statements

Opinion

In our opinion, F&C Global Smaller Companies PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 30 April 2018; the income statement, the statement of cash flows, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Management Engagement Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 May 2017 to 30 April 2018.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made

Our audit approach

Overview

- Overall materiality: £8.2 million (2017: £7.3 million), based on 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.

subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, and testing the Company's compliance with section 1158 in the current year. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
Income from investments	
Refer to page 57 (Significant Accounting Policies) and page 59 (Notes to the Financial Statements). Income from investments comprised dividend and other income amounted to £12.3 million. 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. We tested accuracy of 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. To test occurrence, we traced a sample of dividends received to bank statements. 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	
Refer to page 56 (Significant Accounting Policies) and page 63 (Notes to the Financial Statements). The investment portfolio at the year-end principally comprised listed equity investments valued at £865.5m. 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. No misstatements were identified by our testing which required reporting to those charged with governance.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 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.

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 in aggregate 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
£8.2 million (2017: £7.3 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 £410,000 (2017: £367,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. **Outcome:** We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.
Reporting obligation
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. **Outcome:** We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 14 of the Annual Report 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.

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

- The directors' explanation on page 15 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the company and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 31, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.

- The section of the Annual Report on page 41 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Based on publicly available records we were the appointed auditor prior to 1986 and audited the financial statements for the year ended 30 April 1986, and have been annually reappointed by the members at the Annual General Meeting for subsequent financial periods. The period of total uninterrupted engagement is therefore at least 33 years, covering the years ended 30 April 1986 to 30 April 2018.

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 June 2018


'In the last ten years, F&C Global Smaller Companies has turned a £1,000 investment, with dividends reinvested, into £3,974 compared with £3,024 from the Company's Benchmark.'

Income Statement

Notes	for the year ended 30 April	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
10	Gains on investments	–	66,345	66,345	–	162,084	162,084
	Foreign exchange (losses)/gains	(13)	(277)	(290)	47	1,050	1,097
3	Income	12,344	–	12,344	10,416	–	10,416
4	Management fee	(971)	(2,914)	(3,885)	(815)	(2,447)	(3,262)
5	Other expenses	(848)	(19)	(867)	(701)	(22)	(723)
	Net return before finance costs and taxation	10,512	63,135	73,647	8,947	160,665	169,612
6	Finance costs	(382)	(1,145)	(1,527)	(442)	(1,327)	(1,769)
	Net return on ordinary activities before taxation	10,130	61,990	72,120	8,505	159,338	167,843
7	Taxation on ordinary activities	(682)	–	(682)	(666)	–	(666)
	Net return attributable to equity shareholders	9,448	61,990	71,438	7,839	159,338	167,177
8	**Return per share (basic) – pence**	16.17	106.13	122.30	13.99	284.39	298.38
8	**Return per share (diluted) – pence**	15.92	102.40	118.32	13.80	267.79	281.59

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.
The net return attributable to equity shareholders is also the total comprehensive income.
The notes on pages 56 to 73 form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 30 April 2018

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 2017	14,284	160,243	16,158	1,169	527,523	13,905	733,282
	Movements during the year ended 30 April 2018							
9	Dividends paid	–	–	–	–	–	(7,330)	(7,330)
	Shares issued	305	15,937	–	–	–	–	16,242
14	Conversion of Convertible Unsecured Loan Stock ("CULS")	344	13,296	–	(441)	–	–	13,199
	Net return attributable to equity shareholders	–	–	–	–	61,990	9,448	71,438
	Balance at 30 April 2018	14,933	189,476	16,158	728	589,513	16,023	826,831

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							
9	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

The notes on pages 56 to 73 form an integral part of the financial statements.

Balance Sheet

Notes	at 30 April	£'000s	2018 £'000s	£'000s	2017 £'000s
	Fixed assets				
10	Investments		868,469		761,269
	Current assets				
11	Debtors	4,343		4,462	
	Cash at bank and in hand	7,532		10,061	
		11,875		14,523	
	Creditors: amounts falling due within one year				
12	Bank loans	(24,000)		-	
13	Creditors	(7,640)		(7,813)	
		(31,640)		(7,813)	
	Net current (liabilities)/assets		(19,765)		6,710
	Total assets less current liabilities		848,704		767,979
	Creditors: amounts falling due after more than one year				
14	Convertible Unsecured Loan Stock ("CULS")		(21,873)		(34,697)
	Net assets		826,831		733,282
	Capital and reserves				
15	Called-up share capital		14,933		14,284
16	Share premium account	189,476		160,243	
17	Capital redemption reserve	16,158		16,158	
18	Equity component of CULS	728		1,169	
19	Capital reserves	589,513		527,523	
19	Revenue reserve	16,023		13,905	
			811,898		718,998
	Total shareholders' funds		826,831		733,282
20	**Net asset value per share (basic) – pence**		1,384.22		1,283.42
20	**Net asset value per share (diluted) – pence**		1,368.80		1,263.52

The notes on pages 56 to 73 form an integral part of the financial statements.

The Financial Statements were approved by the Board on 19 June 2018 and signed on its behalf by

Anthony Townsend, Chairman

Statement of Cash Flows

Notes	for the year ended 30 April	2018 £'000s	2017 £'000s
21	Cash flows from operating activities before dividends received and interest paid	(4,919)	(5,131)
	Dividends received	11,903	10,352
	Interest paid	(1,647)	(1,769)
	Cash inflows from operating activities	5,337	3,452
	Investing activities		
	Purchases of investments	(263,773)	(238,411)
	Sales of investments	223,308	222,867
	Other capital charges	(23)	(18)
	Cash outflows from investing activities	(40,488)	(15,562)
	Cash outflows before financing activities	(35,151)	(12,110)
	Financing activities		
	Ordinary dividends paid	(7,330)	(6,577)
	Proceeds from issue of shares	16,242	15,402
	Movement in loans	24,000	-
	Cash inflows from financing activities	32,912	8,825
	Net movement in cash and cash equivalents	(2,239)	(3,285)
	Cash and cash equivalents at the beginning of the year	10,061	12,249
	Effect of movement in foreign exchange	(290)	1,097
	Cash and cash equivalents at the end of the year	7,532	10,061

Represented by:		
Cash at bank and in hand	7,532	10,061

The notes on pages 56 to 73 form an integral part of the financial statements.

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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 and updated in February 2018. There has been no impact on the basis of accounting as a result of this update.

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 – The unadjusted quoted price in an active market for identical assets or liabilities that the Company can access at the measurement date.

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

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

(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.

2. Significant accounting policies (continued)

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.

(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) on next page 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.
- 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 7(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);
- 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.

(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.

2. Significant accounting policies (continued)

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, in order to make a judgement 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 will still be considered as revenue in nature unless evidence suggests otherwise. The value of dividends received in the year treated as capital in nature, as disclosed in note 19 on the accounts, was not material in relation to capital reserves or the revenue account. The value of special dividends receivable in any period cannot be foreseen as such dividends are declared and paid by investee companies and funds without prior reference to the Company.

3. Income

	2018 £'000s	2017 £'000s
Income from investments		
Dividends	12,287	10,303
Scrip dividends	4	81
	12,291	10,384
Other Income		
Interest on cash and short-term deposits	46	32
Underwriting commission	7	–
Total income	12,344	10,416
Total income comprises:		
Dividends	12,291	10,384
Other income	53	32
	12,344	10,416
Income from investments comprises:		
Quoted	12,287	10,370
Unquoted	4	14
	12,291	10,384

Included within income from investments is £704,000 (2017: £578,000) of special dividends classified as revenue in nature in accordance with note 2(b)(xi).

4. Management fees

	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
Management fee	971	2,914	3,885	815	2,447	3,262

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, 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% 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. Other expenses

Other revenue expenses	2018 £'000s	2017 £'000s
Auditors' remuneration:		
Audit services(1)	36	35
Directors' fees for services to the Company(2)	178	178
Marketing	159	147
Printing and postage	80	79
Custody fees	39	31
Depositary fees	91	70
Loan commitment and arrangement fees(3)	85	–
Sundry expenses	180	161
Total other revenue expenses	848	701
Capital expenses	19	22
Total other expenses	867	723

(1) Auditors' remuneration for audit services, exclusive of VAT, amounts to £32,200 (2017: £31,500).
(2) See the Directors' Remuneration Report on page 40.
(3) Under loan facility agreements (see note 12) the Company pays commitment fees on any undrawn portions of the facilities.

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

6. Finance costs

	Revenue £'000s	Capital £'000s	2018 Total £'000s	Revenue £'000s	Capital £'000s	2017 Total £'000s
CULS interest payable and amortised costs	355	1,065	1,420	442	1,327	1,769
Loan interest	27	80	107	–	–	–
	382	1,145	1,527	442	1,327	1,769

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

7. Taxation on ordinary activities

(a) Analysis of tax charge for the year

			2018			2017
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax payable at 19.0% (2017: 19.9%)	–	–	–	–	–	–
Overseas taxation	682	–	682	666	–	666
Total tax charge for the year (note 7(b)) on ordinary activities	682	–	682	666	–	666

The tax assessed is lower than the standard rate of Corporate Tax in the UK (2017: lower).

(b) Factors affecting tax charge for the year

			2018			2017
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Net return on ordinary activities before taxation	10,130	61,990	72,120	8,505	159,338	167,843
Return on ordinary activities multiplied by the standard rate of corporation tax of 19.0% (2017: 19.9%)	1,925	11,778	13,703	1,693	31,708	33,401
Effects of:						
Dividends*	(2,335)	–	(2,335)	(2,066)	–	(2,066)
Expenses not deductible for tax purposes	15	–	15	15	–	15
Overseas tax in excess of double taxation relief	682	–	682	666	–	666
Expenses not utilised in the year	395	775	1,170	358	756	1,114
Capital returns*	–	(12,553)	(12,553)	–	(32,464)	(32,464)
Total tax charge for the year (note 7(a))	682	–	682	666	–	666

*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 £8.1m (2017: £7.0m). 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 £2.0m (2017: £1.7m) relates to revenue expenses and £6.1m (2017: £5.3m) to capital expenses.

8. 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.

			2018			2017
	Revenue	Capital	Total	Revenue	Capital	Total
Net return attributable to equity shareholders – £'000s	9,448	61,990	71,438	7,839	159,338	167,177
Return per share – pence	16.17	106.13	122.30	13.99	284.39	298.38

Both the revenue and capital returns per share are based on a weighted average of 58,411,805 ordinary shares in issue during the year (2017: 56,028,214).

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.

			2018			2017
	Revenue	Capital	Total	Revenue	Capital	Total
Adjusted net return attributable to equity shareholders – £'000s	9,803	63,055	72,858	8,281	160,665	168,946
Return per share – pence	15.92	102.40	118.32	13.80	267.79	281.59

Both the revenue and capital returns per share are based on a weighted average of 61,579,392 ordinary shares in issue during the year (2017: 59,996,888).

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.

9. Dividends

Dividends on ordinary shares	Register date	Payment date	2018 £'000s	2017 £'000s
Interim for the year ended 30 April 2018 of 4.40 pence	5 January 2018	31 January 2018	2,579	–
Final for the year ended 30 April 2017 of 8.25 pence	14 July 2017	11 August 2017	4,751	–
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
			7,330	6,577

The Directors have proposed a final dividend in respect of the year ended 30 April 2018 of 10.00 pence per share, payable on 8 August 2018 to all shareholders on the register at close of business on 13 July 2018. 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 2018 for the purposes of the income retention test for section 1159 of the Income and Corporation Tax Act 2010, are set out below:

	2018 £'000s
Revenue attributable to equity shareholders	9,448
Interim for the year ended 30 April 2018 of 4.40 pence	(2,579)
Proposed final for the year ended 30 April 2018 of 10.00 pence(1)	(5,973)
Amount transferred to revenue reserve for section 1159 purposes(2)	896

(1) Based on 59,732,792 shares in issue at 14 June 2018.

(2) Undistributed revenue for the year equated to 7.3% of total income of £12,344,000 (see note 3).

10. Investments

	Level 1(1) £'000s	Level 3(1) £'000s	2018 Total £'000s	Level 1(1) £'000s	Level 2(1) £'000s	Level 3(1) £'000s	2017 Total £'000s
Cost brought forward	544,447	1,711	546,158	470,687	1,393	1,570	473,650
Gains/(losses) brought forward	213,136	1,975	215,111	106,607	(199)	1,553	107,961
Valuation brought forward	757,583	3,686	761,269	577,294	1,194	3,123	581,611
Movements in the year:							
Purchases at cost	263,733	4	263,737	242,608	–	14	242,622
Transfer between level 1 and level 2(2)	–	–	–	1,194	(1,194)	–	–
Transfer to level 3(3)	–	–	–	(2,941)	–	2,941	–
Sales proceeds	(222,864)	(18)	(222,882)	(221,462)	–	(3,586)	(225,048)
Gains on investments sold in year	58,997	72	59,069	54,011	–	923	54,934
Gains/(losses) on investments held at year end	8,050	(774)	7,276	106,879	–	271	107,150
Valuation of investments held at 30 April	865,499	2,970	868,469	757,583	–	3,686	761,269

	Level 1 £'000s	Level 3 £'000s	Total £'000s	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Cost at 30 April	644,313	1,769	646,082	544,447	–	1,711	546,158
Gains at 30 April	221,186	1,201	222,387	213,136	–	1,975	215,111
Valuation at 30 April	865,499	2,970	868,469	757,583	–	3,686	761,269

(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 lifted in year to 30 April 2017.
(3) Transfer due to fund being valued at NAV of tender pool.

The level 3 investment consists of Australian New Horizons Fund. This is valued based on the NAV as calculated at the balance sheet date. No adjustments have been deemed necessary to the NAV as it reflects the fair value of the underlying investments, as such no specific unobservable inputs have been identified.

A full list of investments is set out on pages 26 to 28.

Gains on investments

	2018 £'000s	2017 £'000s
Gains on investments sold during the year	59,069	54,934
Gains on investments held at year end	7,276	107,150
Total gains on investments	66,345	162,084

Substantial interests

At 30 April 2018 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, incorporation and operation	Number of units held	Holding* %
Australian New Horizons Fund	Australia	2,476,610	35.14

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

11. Debtors

	2018 £'000s	2017 £'000s
Investment debtors	3,012	3,438
Overseas taxation recoverable	297	126
Prepayments and accrued income	1,034	898
	4,343	4,462

12. Creditors: amounts falling due within one year

Bank loans Non-instalment debt payable on demand or within one year	2018 £'000s	2017 £'000s
Sterling loan £18 million repayable July 2018	18,000	–
Sterling loan £6 million repayable August 2018	6,000	–
	24,000	–

In September 2017 the Company entered into a £30m revolving credit facility expiring September 2019. As at 30 April 2018, £18m was drawn down to 3 July 2018 and £6m was drawn down to 16 August 2018. The interest rate on the amounts drawn down are based on the commercial terms agreed with the bank. Commitment fees are payable on undrawn amounts at commercial rates. The Directors consider that the carrying value of the loan is equivalent to its fair value. No overdraft is outstanding at the year end.

13. Creditors: amounts falling due within one year

Creditors	2018 £'000s	2017 £'000s
Investment creditors	6,952	6,992
Interest accrued on CULS and bank loans	228	348
Management fee accrued	330	298
Accruals and deferred income	130	175
	7,640	7,813

14. Convertible Unsecured Loan Stock ("CULS")

	2018 £'000s	2017 £'000s
Balance brought forward	34,697	38,410
Transfer to share capital and share premium on conversion of CULS	(13,199)	(4,088)
Amortised costs	375	375
Balance carried forward	21,873	34,697

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 NAV per ordinary share at the time the CULS were issued.

At 30 April 2017, 35,646,557 units of CULS were in issue. On 31 July 2017, holders of 2,774,368 CULS converted their holdings into 283,752 ordinary shares and on 31 January 2018, holders of 10,671,434 CULS converted their holdings into 1,091,466 ordinary shares. At 30 April 2018, 22,200,755 units of CULS were in issue.

The market price of the CULS at 30 April 2018 was 132.75p per 100p nominal. The CULS are unsecured and are subordinate to any creditors of the Company.

15. Called-up share capital

	Issued and fully paid	
Equity share capital	**Number**	**£'000s**
Ordinary shares of 25p each		
Balance brought forward	57,135,074	14,284
Shares issued	1,222,500	305
Shares issued on conversion of CULS	1,375,218	344
Balance carried forward	59,732,792	14,933

During the year 1,222,500 ordinary shares were issued, raising net proceeds after issue costs of £16,242,000. Since the year end, up to 14 June 2018, no further ordinary shares have been issued.

On 9 August 2017, 283,752 ordinary shares were issued on the conversion of 2,774,368 CULS, at no cost to the CULS holders. On 12 February 2018, 1,091,466 ordinary shares were issued on the conversion of 10,671,434 CULS, at no cost to the CULS holders (see note 14).

16. Share premium account

	2018 £'000s	2017 £'000s
Balance brought forward	160,243	141,046
Premium on issue of shares	15,937	15,079
Transfer from CULS liability on conversion of CULS	12,855	3,980
Transfer from equity component of CULS on conversion of CULS	441	138
Balance carried forward	189,476	160,243

17. Capital redemption reserve

	2018 £'000s	2017 £'000s
Balance brought forward and carried forward	16,158	16,158

18. Equity component of CULS

	2018 £'000s	2017 £'000s
Balance brought forward	1,169	1,307
Transfer to share premium on conversion of CULS	(441)	(138)
Balance carried forward	728	1,169

19. 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 (see note 10)	59,069	–	59,069	–
Gains on investments held at year end (see note 10)	–	7,276	7,276	–
Foreign exchange losses	(277)	–	(277)	–
Management fee (see note 4)	(2,914)	–	(2,914)	–
Other expenses (see note 5)	(19)	–	(19)	–
Finance costs (see note 6)	(1,145)	–	(1,145)	–
Revenue return	–	–	–	9,448
Net return attributable to ordinary shareholders	54,714	7,276	61,990	9,448
Dividends paid in the year (see note 9)	–	–	–	(7,330)
	54,714	7,276	61,990	2,118
Balance brought forward	312,412	215,111	527,523	13,905
Balance carried forward	367,126	222,387	589,513	16,023

Included within the capital reserve movement for the year are £354,000 (2017: £525,000) of transaction costs on purchases of investments, £155,000 (2017: £214,000) of transaction costs on sales of investments and £758,000 (2017: £971,000) of distributions received recognised as capital.

20. Net asset value per ordinary share

	2018	2017
Net assets attributable at the year end – (£'000s)	826,831	733,282
Number of ordinary shares in issue at the year end	59,732,792	57,135,074
Net asset value per share – pence	1,384.22	1,283.42

Diluted net asset value per ordinary share is based on net assets at the end of the year assuming the conversion of 22,200,755 (2017: 35,646,557) 100p CULS in issue at the rate of 977.6970 pence per £1 nominal of CULS for one ordinary share.

	2018 £'000s	2017 £'000s
Net assets attributable at the year end	826,831	733,282
Amount attributable to ordinary shareholders on conversion of CULS	21,873	34,697
Attributable net assets assuming conversion	848,704	767,979
	Number	Number
Ordinary shares in issue at the year end	59,732,792	57,135,074
Ordinary shares created on conversion of CULS	2,270,719	3,645,972
Number of ordinary shares for diluted calculation	62,003,511	60,781,046
Diluted net asset value per ordinary share – pence	1,368.80	1,263.52

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

	2018 £'000s	2017 £'000s
Net return on ordinary activities before taxation	**72,120**	167,843
Adjust for returns from non-operating activities		
Gains on investments	**(66,345)**	(162,084)
Foreign exchange losses/(gains)	**290**	(1,097)
Non-operating expenses of a capital nature	**19**	22
Return from operating activities	**6,084**	4,684
Adjust for non-cash flow items, dividend income and interest expense		
Increase in prepayments and accrued income	**(15)**	(17)
Decrease in creditors	**(9)**	(1,108)
Dividends receivable	**(12,031)**	(10,073)
Interest payable	**1,527**	1,769
Scrip dividends	**(4)**	(81)
Amortised costs	**375**	375
Overseas taxation	**(846)**	(680)
Cash flows from operating activities (before dividends received and interest paid)	**(4,919)**	(5,131)

22. Transactions with related parties and Manager

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 40, and as set out in note 5 on the accounts; and the beneficial interests of the Directors in the ordinary shares and CULS of the Company as disclosed on page 39. 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 and note 13, where accrued management fees are disclosed.

23. 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 Company has net current liabilities shown on the Balance Sheet but this has no effect on its ability to continue on a going concern basis.

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.

24. 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 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:

	At 30 April 2018	2018 Average for the year	At 30 April 2017	2017 Average for the year
US dollar	**1.3774**	**1.3421**	1.2938	1.3044
Euro	**1.1400**	**1.1358**	1.1881	1.1911

24. 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:

Weakening of Sterling by 10%	2018 US$ £'000s	2018 € £'000s	2017 US$ £'000s	2017 € £'000s
Net revenue return attributable to equity shareholders	324	188	326	158
Net capital return attributable to equity shareholders	42,264	7,388	38,152	7,060
Net total return attributable to equity shareholders	42,588	7,576	38,478	7,218
Net asset value per share (basic) – pence	71.30	12.68	67.35	12.63

Strengthening of Sterling by 10%	2018 US$ £'000s	2018 € £'000s	2017 US$ £'000s	2017 € £'000s
Net revenue return attributable to equity shareholders	(265)	(154)	(267)	(130)
Net capital return attributable to equity shareholders	(34,580)	(6,044)	(31,215)	(5,777)
Net total return attributable to equity shareholders	(34,845)	(6,198)	(31,482)	(5,907)
Net asset value per share (basic) – pence	(58.33)	(10.38)	(55.10)	(10.34)

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:

2018	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	CULS (at amortised cost) £'000s	Unsecured Loans £'000s	Net monetary assets/ liabilities £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,033	4,020	(4,082)	(21,873)	(24,000)	(44,902)	337,321	292,419
US dollar	1,048	2,965	(2,802)	–	–	1,211	379,164	380,375
Euro	645	547	(249)	–	–	943	65,545	66,488
Other	1,617	–	(507)	–	–	1,110	86,439	87,549
Total	4,343	7,532	(7,640)	(21,873)	(24,000)	(41,638)	868,469	826,831

2017	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	CULS (at amortised cost) £'000s	Unsecured Loans £'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

24. 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	2018 Net total £'000s	Within one year £'000s	More than one year £'000s	2017 Net total £'000s
Exposure to floating rates – cash	7,532	–	7,532	10,061	–	10,061
Exposure to fixed rates – CULS	–	(22,201)	(22,201)	–	(35,647)	(35,647)
Exposure to fixed rates – Loans	(24,000)	–	(24,000)	–	–	–
Net exposure	(16,468)	(22,201)	(38,669)	10,061	(35,647)	(25,586)
Minimum net exposure during the year	3,267	(44,872)	(41,605)	5,530	(39,803)	(34,273)
Maximum net exposure during the year	11,180	(32,872)	(21,692)	18,605	(39,852)	(21,247)

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:

	2018 Increase in rate £'000s	2018 Decrease in rate £'000s	2017 Increase in rate £'000s	2017 Decrease in rate £'000s
Revenue return	151	(151)	201	(201)
Capital return	–	–	–	–
Total return	151	(151)	201	(201)
NAV per share – pence	0.25	(0.25)	0.35	(0.35)

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.

24. Financial Risk Management (continued)

Other market risk exposures

The Company did not enter into derivative transactions in managing its exposure to other market risks (2017: same). The portfolio of investments, valued at £868,469,000 at 30 April 2018 (2017: £761,269,000) 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 on pages 6 and 17 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:

		2018		2017
	Increase in value £'000s	Decrease in value £'000s	Increase in value £'000s	Decrease in value £'000s
Capital return	173,694	(173,694)	152,254	(152,254)
NAV per share – pence	290.79	(290.79)	266.48	(266.48)

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

(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, 185 at 30 April 2018 (2017: 194); the liquid nature of the portfolio of investments; and the industrial and geographical diversity of the portfolio. 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.

24. Financial Risk Management (continued)

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:

2018	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	**7,412**	**–**	**–**	**7,412**
Bank loans	**18,000**	**6,000**	**–**	**24,000**
Interest payable on loans	**60**	**38**	**–**	**98**
CULS	**–**	**–**	**22,201**	**22,201**
Interest payable on CULS	**389**	**389**	**389**	**1,167**
	25,861	**6,427**	**22,590**	**54,878**

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

(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 2017. 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 Depositary 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 (2017: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

24. 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 £29,472,000 (2017: £45,717,000).

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 structure of the Company's capital is described in note 15 on page 65 and details of the Company's reserves are shown in the Statement of Changes in Equity on page 53.

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.

The Company's objectives, policies and procedures for managing capital are unchanged from last year.

There were no breaches by the Company during the year of the financial covenants put in place in respect of the revolving credit facility provided to the Company.

These requirements are unchanged since last year and the Company has complied with them at all times.

25. 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 2018 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.

26. Securities financing transactions ("SFT")

The Company has not, in the year to 30 April 2018 (2017: 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

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total assets	198,100	160,994	218,384	251,604	256,776	350,090	441,086	555,092	591,602	767,979	**872,704**
Debenture and loans	10,000	10,000	10,000	10,000	10,000	10,000	10,000	–	–	–	**24,000**
CULS	–	–	–	–	–	–	–	38,129	38,410	34,697	**21,873**
Net assets	188,100	150,994	208,384	241,604	246,776	340,090	431,086	516,963	553,192	733,282	**826,831**

Net Asset Value ("NAV")
at 30 April

pence	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV (basic) per share	428.2	360.2	518.1	602.5	596.4	756.2	841.8	973.1	998.3	1283.4	**1384.2**
NAV (diluted) per share	n/a	n/a	n/a	n/a	n/a	n/a	n/a	970.3	994.5	1263.5	**1368.8**
NAV total return % – 5 years (per Morningstar)											**89.8**
NAV total return % – 10 years (per Morningstar)											**253.7**

Share Price
at 30 April

pence	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Middle market price per share	385.0	325.0	461.0	583.5	588.0	764.5	840.0	980.0	1001.0	1273.0	**1375.0**
Share price high	482.0	405.0	461.0	587.0	618.0	779.0	879.5	1025.0	1024.0	1299.0	**1415.0**
Share price low	339.8	221.0	310.5	405.0	485.0	554.0	745.3	784.5	859.0	947.0	**1265.0**
Share price total return % – 5 years (per Morningstar)											**88.7**
Share price total return % – 10 years (per Morningstar)											**297.4**

Revenue
for the year ended 30 April

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Available for ordinary shares – £'000s	2,510	2,430	2,016	2,039	2,799	3,044	4,461	5,659	6,452	7,839	**9,448**
Return per share	5.54p	5.66p	4.88p	5.08p	6.87p	7.10p	9.31p	10.87p*	11.78p*	13.80p*	**15.92p***
Dividends per share	4.83p	4.89p	5.00p	5.10p	5.63p	6.50p	8.00p	9.65p	10.70p	12.25p	**14.40p**

* diluted

Performance
(rebased at 30 April 2008)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NAV per share	100	84.1	121.0	140.7	139.3	176.6	196.6	227.3*	233.1*	299.7*	**323.3***
Middle market price per share	100	84.4	119.7	151.6	152.7	198.6	218.2	254.5	260	330.6	**357.1**
Earnings per share	100	102.2	88.1	91.7	124.0	128.2	168.1	196.2	212.6	249.1	**287.4**
Dividends per share	100	101.2	103.5	105.6	116.6	134.6	165.6	199.8	221.5	253.6	**298.1**
RPI	100	98.8	104.1	109.5	113.3	116.6	119.5	120.6	122.1	126.4	**130.7**

* diluted

Costs of running the Company
for the year ended 30 April

Expressed as a percentage of average net assets	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Ongoing charges*											
excluding performance fees	–	–	–	1.00%	1.08%	0.85%	0.76%	0.79%	0.85%	0.84%	**0.83%**
including performance fees	–	–	–	1.02%	1.56%	1.49%	0.78%	1.08%	0.85%	0.86%	**0.83%**
Total expense ratio											
excluding performance fees	0.77%	0.93%	0.78%	0.76%	0.79%	0.71%	0.50%	0.53%	0.51%	0.62%	**0.60%**
including performance fees	0.77%	0.93%	0.78%	0.76%	1.17%	1.22%	0.50%	0.74%	0.76%	0.62%	**0.60%**

* Not calculated for years prior to 2011.

Gearing
at 30 April

%	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Effective gearing	3.3%	4.1%	(3.3%)	2.7%	1.7%	(2.3%)	(1.3%)	4.8%	4.7%	3.4%	**5.1%**
Fully invested gearing	5.3%	6.6%	4.8%	4.1%	4.1%	2.9%	2.2%	7.4%	6.9%	4.7%	**5.6%**

Analysis of Ordinary Shareholders

Category	Holding % at 30 April 2018	Holding % at 30 April 2017
F&C Savings Plans	**51.8**	53.0
Nominees	**34.7**	33.6
Institutions	**8.6**	7.6
Direct individuals	**4.9**	5.8
	100.0	100.0

Source: F&C

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-ninth Annual General Meeting of the Company will be held at the Chartered Accountants Hall, 1 Moorgate Place, London EC2R 6EA on Thursday 26 July 2018 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 2018.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Remuneration Report.
4. To declare a final dividend of 10.00 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 £1,493,250 (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 2019 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 £1,493,250, 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:

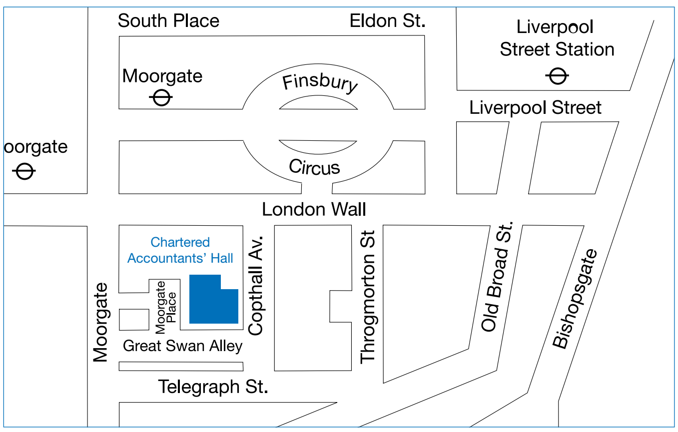
(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 8,953,000 or, if less, 14.99% of the number of ordinary shares in issue (excluding treasury shares) as at the date of the passing of this resolution;

(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.

By Order of the Board
F&C Investment Business Limited
Secretary
19 June 2018

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 19 July 2018. 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 19 July 2018.
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 24 July 2018 (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 2018, being the latest practicable date before the publication of this notice, the Company's issued capital consisted of 59,732,792 ordinary shares of 25 pence each carrying one vote each.

Therefore, the total voting rights in the Company as at 14 June 2018 were 59,732,792. 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 2018 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.

    A resolution may properly be moved or a matter may properly be included in the business unless:

    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise),
    (b) it is defamatory of any person or
    (c) it is frivolous or vexatious.

    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 13 June 2018, 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

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 fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Lead Manager.

Key Information Documents

The Key Information Documents relating to the Company's ordinary shares and CULS can be found on its website at www.fandcglobalsmallers.com. These documents have been produced in accordance with the EU's Packaged Retail and Insurance-based Investment Products Regulations.

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".

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £11,700 in the tax year ended 5 April 2019 without incurring any tax liability.

A rate of CGT of 10% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£34,500 in 2018–19 tax year). A higher rate of 20% will apply to those whose income and gains exceed this figure.

Income tax

The final dividend of 10.00 pence per share is payable on 8 August 2018. From 6 April 2018 the annual tax-free allowance to UK residents on dividend income received in their entire share portfolios is £2,000. Dividend income received in excess of this amount will be taxed at rates of 7.5% (basic rate taxpayers), 32.5% (higher rate taxpayers) or 38.1% (additional rate taxpayers). The allowance for the year ended 5 April 2018 was £5,000.

Association of Investment Companies ("AIC")

F&C Global Smaller Companies PLC is a member of the AIC, a trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical information service. For further details, please contact the AIC on 020 7282 5555, or visit the website: theaic.co.uk.

Unclaimed dividends

The Company has appointed Georgeson (a trading division of our Registrars) to carry out an exercise to locate shareholders, or their beneficiaries, who have lost track of or are unaware of their investments. This 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 requires investment trust companies 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 who have purchased shares in investment trusts. All new shareholders, excluding those whose shares are held in CREST, are 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 gov.uk/government/publications/exchange-of-information-account-holders.

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 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 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 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.

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 2018/19 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 £4,260 for the tax year 2018/19 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 £4,260 for the 2018/19 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 two 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.

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 ensure you have read the full Terms and Conditions, Privacy Policy and relevant Key Features Document before investing. For regulatory purposes, please ensure you read the Pre-sales cost disclosures related to the product you are applying for, and the relevant Key Information Documents (KIDs) for the investment trusts you are wanting to invest into.

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, The Share Centre.**

BMO | A part of BMO Financial Group

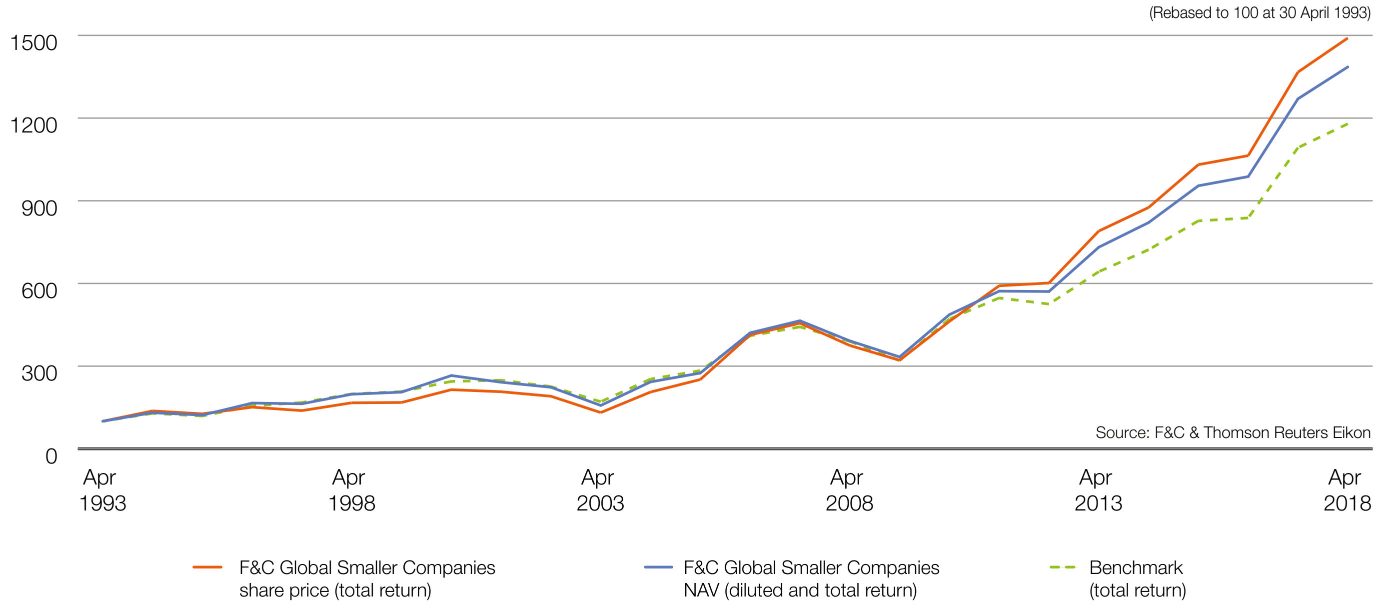
25 Year Historical Information

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.

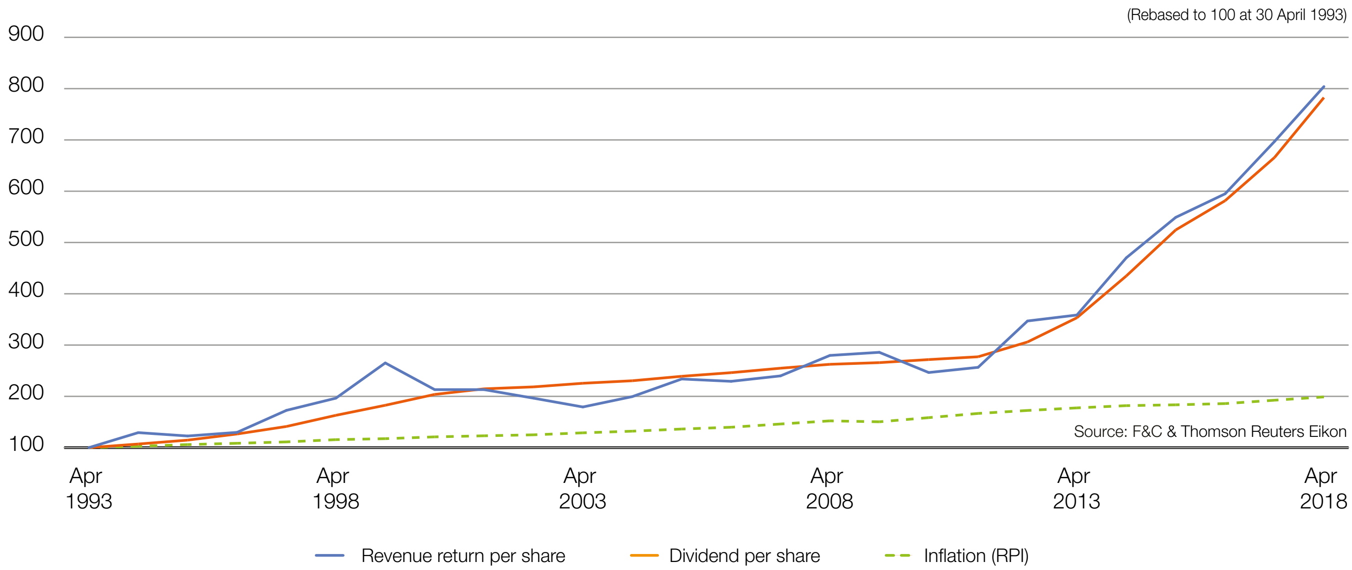
at 30 April	Net assets £'000s	Net asset value per share pence	Closing share price pence	Premium/ (discount) %	Revenue return per share pence	Dividend per share pence	Dividend growth %	Inflation (RPI) %
1993	121,346	136.1	133.5	(1.9)	1.98	1.84	5.1	1.3
1994	184,067	175.8	181.5	3.2	2.56	1.97	7.1	2.6
1995	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
2018	826,831	1,368.8 (2)	1,375.0	0.5	15.92(2)	14.40	17.6	3.4

(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:	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

Alternative Performance Measures

The Company uses the following Alternative Performance Measures ("**APMs**") throughout the annual report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative detailed below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to the shareholders in order to assess the Company's performance between reporting periods and against its peer group.

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 20 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. The Board's policy is set out on page 10.

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.

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. (See calculation in note 20 on the accounts.)

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.

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 (see notes 4 and 5 (page 60) on the accounts), 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 Diluted 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.

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.

APMs – Alternative Performance Measures are financial measures of historical or future financial performance, financial position, or cash flows, other than financial measures defined or specified in the applicable accounting framework. Guidelines published by the European Securities and Markets Authority aim to improve comparability, reliability and comprehensibility by way of APMs.

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 compared, 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 – The Custodian is JP Morgan Chase Bank. The Custodian 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, 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.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital (see notes 2, 16, 17 and 19 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).

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.

ISAE Report – Report prepared in accordance with the International Standard on Assurance Engagements.

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.

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.

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.

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.

F&C Global Smaller Companies PLC

REPORT AND ACCOUNTS 2018

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